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ZEALAND, SOUTH AFRICA, THE NETHERLANDS, SWITZERLAND AND THE UNITED  
STATES**

**Regus Group plc**

**Proposed acquisition of the entire issued share capital of HQ Global Holdings, Inc. ("HQ")**

**Proposed Placing and Open Offer of up to 196,958,408 New Ordinary Shares at 62.25p per  
New Ordinary Share on the basis of 1 New Ordinary Share for every 4 Existing Ordinary  
Shares**

**Summary**

- ▶ The Board of Regus today announces that the Company has entered into a conditional agreement to acquire the entire issued share capital of HQ for a total consideration of up to US\$302.5m (£163.5m), payable in cash.
- ▶ To finance part of the cash consideration payable under the Acquisition Agreement, the Board also announces that the Company is proposing to raise approximately £119 million, net of expenses, by way of a Placing and Open Offer at 62.25p per New Ordinary Share.
- ▶ Of the total of 196,958,408 New Ordinary Shares under the Placing and Open Offer, 90,332,321 New Ordinary Shares (representing 45.9% of the total number) are to be placed on a firm conditional basis with institutional investors ("the Firm Placing").
- ▶ Under the Open Offer (the "Open Offer"), 106,626,087 New Ordinary Shares (representing 54.1% of the total number) are to be conditionally placed with institutional investors, subject to clawback to satisfy valid applications by Qualifying Shareholders.
- ▶ Maxon Investments, a company wholly owned by Mark Dixon, has undertaken to take up 1,000,000 New Ordinary Shares under the Open Offer and to waive the remainder of its entitlement under the Open Offer.
- ▶ Regus has also obtained a commitment from Bear Stearns Corporate Lending, Inc. to provide new Debt Facilities comprising a term loan of US\$110 million (£59.5 million), a revolving credit facility of US\$25 million (£13.5 million) to finance, in part, the consideration for the Acquisition and to provide additional working capital and a credit linked deposit facility of US\$20 million (£10.8 million).
- ▶ The Placing and the Open Offer have been fully underwritten by Dresdner Bank AG and KBC Peel Hunt.

- ▶ The Board believes that the Acquisition of HQ by Regus will:
  - ▶ create an industry leader in the US with enhanced scale and comprehensive geographic coverage;
  - ▶ facilitate an enhanced dual branded product offering with a wider choice for customers in coverage, choice and location;
  - ▶ provide cross selling opportunities across the combined US and international portfolios;
  - ▶ provide significant scope for synergies through reduction in corporate overheads, economies of scale and operating efficiencies.
- ▶ It is expected that the Acquisition, which is conditional on, amongst other things, shareholder approval, will complete on 20 August 2004 and that dealings in the New Ordinary Shares will commence on the same date.

Regus Group Chairman, John Matthews, commented:

"With more than 650 business centres across 52 countries, the scale, coverage and breadth of product offering of our combined operations means that we can now serve our customers across the world in a way that is tailored to them and their business needs.

"This deal is excellent news for investors and customers alike and is expected to be both earnings per share and cashflow per share enhancing."

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This summary should be read in conjunction with the full text of the following announcement

Appendix I sets out the expected timetable of principal events

Appendix II sets out the risk factors

Appendix III sets out the terms and conditions of the Placing

Appendix IV sets out definitions of terms used in the announcement

Dresdner Kleinwort Wasserstein and KBC Peel Hunt (both of which are authorised and regulated by the FSA) are acting as financial advisers to Regus in relation to the Placing and Open Offer, and Bear Stearns (which is authorised and regulated by the FSA) is acting as financial adviser to Regus in relation to the Acquisition. They are not acting for anyone else and will not be responsible to any other person for providing the protections afforded to their clients or for advising any other person in relation to the Placing and Open Offer or the Acquisition or any other matter referred to in this Announcement.

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THIS ANNOUNCEMENT IS NOT AN OFFER OF NEW ORDINARY SHARES FOR SALE INTO THE UNITED STATES. THE NEW ORDINARY SHARES REFERRED TO IN THIS ANNOUNCEMENT HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES ABSENT REGISTRATION OR AN EXEMPTION FROM REGISTRATION. THERE WILL BE NO PUBLIC OFFER OF THE NEW ORDINARY SHARES IN THE UNITED STATES.

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Shares**

**1. Introduction**

The Board of Regus announces that the Company has entered into a conditional agreement to acquire the entire issued share capital of HQ for consideration of up to US\$302.5 million (£163.5 million)<sup>1</sup>, payable in cash. HQ is a leading provider of out-sourced office solutions, principally in the United States.

To finance part of the cash consideration payable under the Acquisition Agreement, the Board also announces that the Company is proposing to raise up to approximately £119 million, net of expenses, by way of the Placing and Open Offer. The Issue Price of 62.25 pence per New Ordinary Share represents a 9.8 per cent. discount to the closing middle market price of 69.0 pence per Existing Ordinary Share on 15 July 2004, the last Business Day before the announcement of the Placing and Open Offer. The Placing and Open Offer has been fully underwritten by Dresdner Bank AG and KBC Peel Hunt. Further terms of the Placing and Open Offer, including the procedure for acceptance and payment, are set out in Appendix III of this Announcement and will be set out in further detail in the Prospectus. It is the Company's intention that the balance of the cash consideration will be financed from certain draw-downs from new Debt Facilities which Bear Stearns Corporate Lending Inc. has committed, subject to certain conditions, to provide to the Group on the terms of an agreed form credit agreement.

In view of its size, the Acquisition is conditional upon (amongst other things) approval by Shareholders. Shareholder approval of the Acquisition, for the increase in the size of the break fee (as described in the Prospectus) and for the necessary corporate authorities to implement the Placing and Open Offer, is being sought at the Extraordinary General Meeting. Notice of the Extraordinary General Meeting, containing the text of the Ordinary Resolutions to approve the Acquisition, the increase in the size of the break fee (as described in the Prospectus) and the corporate authorities necessary to implement the Placing and Open Offer, will be set out in the Prospectus to be sent to Shareholders shortly.

**2. Regus Group**

***Business description***

The Group is a leading provider of out-sourced office solutions. Its international network of adaptable business centres allows its customers to outsource, completely or in part, their workspace requirements. The Group's high quality business centre offerings include (depending on customer requirements) a mix of workstations, conference rooms, meeting rooms and training rooms as well as related support services, such as video conferencing, telecommunications, internet connectivity, reception and secretarial services. Customers can use all or part of the Group's business centres for a duration of one hour to over ten years. The Group's portfolio of high-quality, branded business centres are positioned at the premium end of the serviced office market.

The Group's out-sourced office solutions represent part of the market for office space. Primarily located in downtown business districts, suburban office parks and near transportation gateways, the Group's business centres can be tailored to a variety of customer requirements. The Board believes that the portfolio of the Group's business centres and products offer customers the following commercial benefits:

- ▶ Lower total occupancy costs by avoiding up-front capital commitments and also matching their office space to their actual requirements;
- ▶ Speed and flexibility to meet changing global business needs through flexible contract terms, transfer rights and the ability to upsize or downsize on commensurate terms; and
- ▶ Outsourcing of their global workplace requirements to a single point of contact with consistent high quality products and services worldwide.

The Group's portfolio currently comprises a network of 392 business centres in 52 countries. Of these business centres, 24 are operated on a franchise basis, 4 are managed centres, 12 are joint ventures and 91 are owned and operated by the Group's 42 per cent. owned UK associate.

#### ***Recent restructuring and fundraising***

Over the past two years, the Group has undertaken extensive corporate and financial restructuring which included the sale of a 58 per cent. interest in Regus' UK business to Alchemy Partners in December 2002. In early 2003, certain Group companies filed for Chapter 11 administration in the United States. In January 2004, the Plan of Re-organisation became effective and those Group companies successfully exited from Chapter 11 administration.

In December 2003, Regus Group Plc was established as the new holding company for the Group pursuant to a scheme of arrangement and the Company successfully raised approximately £55 million by way of a rights issue. Approximately £28 million of the net proceeds of that rights issue was applied to settle the claims of unsecured creditors under the Plan of Reorganisation. The remainder of the proceeds of that rights issue was applied to the ongoing working capital requirements of the Group.

Over the past two years, including during this period of restructuring, management has taken a number of actions to improve the financial performance of the Group:

#### ***Reduction of the Group's fixed cost base***

Over the last two years the Group has renegotiated 117 leases in its wholly owned centres with a view to matching lettable space better with prevailing levels of demand for the Group's products. This renegotiation process has involved the closure of 39 business centres and 36 floors within business centres, reducing the number of workstations which the Group operates from 60,073 in January 2003 to 50,262 in May 2004.

Reflecting (amongst other things) these actions, the total costs of sales before exceptional items of the Group have been reduced from approximately £284 million in 2001 to approximately £240 million in 2003<sup>2</sup>.

The Company has also significantly cut overheads at both the Group level and at the level of individual business centres. Total Group administrative costs have been reduced from approximately £71 million in 2001 to approximately £39 million in 2003. The Board expects to achieve further reductions in 2004.

### *Reduced exposure to cyclical risk*

The Board believes that the Group has reduced its operational gearing to cyclical risks by:

- ▶ Increasing the number of risk-sharing turnover leases to 24 per cent. of workstation space (compared with 17 per cent. at 1 January 2003)<sup>3</sup>;
- ▶ Changing the customer base by reducing the average number of workstations per contract; and
- ▶ Increasing the focus on long-term global outsourcing contracts with major multi-national companies.

### *Improved level of contracted revenues*

The Board believes that the Group has improved the level of contracted revenues by offering customers incentives to enter into longer-term contracts. As at 1 June 2004, the Group had booked or contracted revenues for the current financial year ending 31 December 2004 representing 83 per cent. of budgeted turnover. The twelve-month forward order book of contracted revenues stood at approximately £90 million as at 1 June 2004.

While the Group continues to have significant operational gearing through its leasehold portfolio, the Board believes that the steps taken over this period of restructuring have better positioned the Group to generate sustainable profits from improving market conditions and the continuing trend towards property and workspace outsourcing.

## **3. The Acquisition**

### ***Information on HQ***

The HQ Group is also a leading provider of out-sourced serviced office solutions principally in the United States. However, whilst Regus' product offering is at the premium end of the serviced office market, the HQ offering is a mid-range product offering. Like the Group, the HQ Group provides an out-sourced office solution through furnished and equipped individual offices and multi-office suites available on short notice with flexible contracts. A key difference between the two groups however is that unlike the Group's business centres, the HQ Group's business centres are not branded. The HQ Group also provides business support and information services including: telecommunications; broadband internet access; mail room and reception services; high speed copying, faxing and printing services, secretarial, desktop publishing and information technology support services and conference facilities, with multi-media presentation and video teleconferencing capabilities. The HQ Group also provides similar services for those businesses and individuals that do not require offices on a full-time basis.

The HQ Group's principal executive offices are in Dallas, Texas. The HQ Group's typical business centre is a business centre of approximately 22,000 square feet, offering around 135 workstations. The HQ Group's portfolio currently comprises a network of approximately 263 business centres in total including 227 in the United States<sup>4</sup>. The HQ Group has entered into a number of franchise arrangements. Those franchisees (of which there are 16) operate a total of 54 business centres of which 18 are located in the United States and 36 are located in Latin America.

The HQ Group has recently undergone a period of significant re-organisation and operational and financial restructuring. In the third quarter of 2001, in an effort to respond to a decline in occupancy, the HQ Group initiated a programme to identify and close unprofitable locations in the United States. The HQ Group engaged in a similar closure programme in Europe and closed operations in certain European countries by commencing insolvency proceedings. On 13 March

2002, certain HQ Group companies filed voluntary petitions for bankruptcy relief under Chapter 11 in the US bankruptcy court in Delaware and those companies successfully exited Chapter 11 on 8 October 2003.

The restructuring effected by the HQ Group has involved the re-negotiation of approximately 180 leases, the closure of approximately 70 US centres and 26 international centres (excluding franchised centres), a balance sheet restructuring principally through a debt for equity swap and significant reductions in overhead costs.

### ***Background to and reasons for the Acquisition***

As noted in Regus' financial statements for the year ended 31 December 2003, the Company entered the current financial year in a significantly better position than at any time in the last two years. The Company had strengthened its financial position through the rights issue in December 2003 and from the fourth quarter of 2003 began to benefit from rising occupancy levels and a record forward order book. The Company also stated that should such trends continue it would consider demand-led expansion.

Since that time, the Group has continued to see evidence of improving demand particularly in the United States. The Group's US business has experienced increasing demand with occupancy as at 31 May 2004 up to 82 per cent.<sup>5</sup>, a 4 per cent. increase since 1 January 2003, and enquiries up 18 per cent. over the same period. The Board believes that the acquisition of the HQ Group's portfolio of business centres represents an attractive opportunity to increase the Group's breadth and depth of product offering and to participate in the important and growing US market. The Board also believes the acquisition will be an important step in the Group's strategy of becoming the leading provider of quality out-sourced business centres through a global network.

Specifically, the Board believes that the combination of Regus and HQ:

*Creates an industry leader in the US with enhanced scale and comprehensive geographic coverage*

The combined businesses of the Group and the HQ Group will add 96 new trade areas in the United States and a total of 111 new locations in those new trade areas (including managed, joint venture and franchised business centres). For example, in the north eastern region of the United States (which includes New York and Washington D.C.), the Group's portfolio currently comprises 22 business centres, whilst the HQ Group's portfolio currently comprises 75 business centres<sup>6</sup>; the Board believes that the addition of the HQ Group portfolio would fill certain gaps in the Group's current portfolio in that region. The Board believes that the scale and geographic coverage of the Enlarged Group would enhance its ability to offer one-stop shop solutions to larger multi-location customers and provide a broader choice of services and locations to its other customers.

*Facilitates an enhanced dual-branded product offering with a wider choice for customers in coverage, choice and locations to address a broader customer base*

In addition to expanding its business centre network, the Acquisition will provide the Group with a platform for a dual-brand strategy. Regus' product offering is strongly branded under the "Regus" brand and is at the premium end of the real estate market owing to Regus' significant investment in fit-out and support and service infrastructure. The addition of the HQ brand and the HQ Group product offering will enable the Group to offer a complementary brand, as well as the service and amenity levels to attract a broader customer base.

*Provides cross-selling opportunities across the combined United States and international portfolios*

Through its acquisition of HQ, the Group will expand its customer base by the addition of the HQ Group customers (as at the end of May 2004, there were approximately 18,000 customers of the HQ Group comprising approximately 6,000 office customers and 12,000 business access customers). The Board believes that there is an opportunity to cross-market the combined Group's portfolio of business centres, both in the United States and globally, to the Enlarged Group's customers, many of whom are multi-location/multi-national businesses.

*Creates scope for synergies through the reduction in corporate overheads, economies of scale and operating efficiencies*

The Board believes that it will be possible to realise overhead synergies of at least £11 million on an annualised basis within an 18 month period from First Closing. It is intended that a streamlined management team from a single head office will manage the combined US business. The Board also believes that there will be opportunities to reduce total staffing levels at the business centres across the Enlarged Group.

In addition to the identified cost savings, the Board expects that the combination of Regus and HQ will also provide opportunities to improve buying terms from major suppliers and to introduce operational efficiencies and cost control programmes into the Enlarged Group.

The Board expects that the cost of achieving these synergies will be approximately £8 million, principally incurred over the first nine months following Completion.

*Allows for the integration of HQ's management team and systems into the Group's existing operations*

The Board of Regus recognises certain strengths of HQ's current management team and its existing operating and control systems. The Board therefore believes that the combination of the two businesses provides the opportunity to build a strengthened management team with enhanced IT and control systems to drive forward the Enlarged Group's US business.

*Enhances operational and financial flexibility from an enlarged property portfolio*

The Acquisition will increase the Group's total business centre space in the US from 2,140,000 square feet to approximately 6,740,000 square feet and total business centres from 88 to 315<sup>7</sup>. The Board believes that this increased portfolio provides the Enlarged Group with the opportunity to enhance overall returns through greater flexibility in the products, office configurations and brands it is able to offer local markets.

In addition, the average remaining lease term on the HQ portfolio being acquired is approximately 4 years compared to the Group's average of approximately 5.4 years<sup>8</sup> in the US. The Board believes that the Enlarged Group will be well positioned to take advantage of upcoming lease renewals to drive competitive renewal rates or consolidate capacity in local markets by not renewing leases and moving customers to excess capacity at nearby centres.

### ***Summary financial information on HQ***

As indicated above, the HQ Group has recently undergone a period of significant restructuring, which included a reorganisation of HQ's legal and financial structure, which was completed on 8 October 2003 when HQ emerged from Chapter 11 administration. This restructuring involved the closure of many business centres, re-negotiation of leases on continuing business centres and significant overhead cost reductions. Consequently the Board does not believe that the historical financial results of HQ in respect of the periods prior to 8 October 2003 are necessarily



representative of HQ's current trading performance or likely future prospects. For the three month period to 31 December 2003, following emergence from Chapter 11, the HQ Group reported sales of US\$61.6 million, a loss before tax of US\$3.7 million and positive operating cash flow of US\$2.4 million and had net assets as at 31 December 2003 of US\$141.0 million.

#### ***Financial effects of the Acquisition***

The Company proposes to finance the consideration under the Acquisition Agreement through the proceeds of the Placing and Open Offer and from certain draw-downs under the Debt Facilities to be entered into on or before first Completion.

The Group is in the process of agreeing with the Inland Revenue Service the availability of approximately US\$200 million of net operating losses. The Company has been advised that these will be available for offset against the future profits of the Enlarged Group in the US. In addition, the Board believes that it will be possible to realise overhead synergies of at least £11 million on an annualised basis from a combination of the two businesses within an 18 month period from First Closing of the Acquisition.

The Board believes that the Acquisition will be earnings per share and cash flow per share enhancing (after adjusting for the effects of goodwill amortisation and exceptional items).<sup>9</sup>

#### **4. Current Trading and Prospects of the Enlarged Group**

At Regus' AGM on 18 May 2004, the Company made the following statement:

"I am pleased to report that Regus is trading slightly ahead of expectations for the year to date. The Company has continued to improve overall performance and has seen consistent improvement in its free cash flow at the operating level."

"In terms of trading, we have seen steady revenue growth in the first four months of this year, up 5 per cent. in April 2004 (at constant exchange rates) compared with December 2003. Revenue Per Available Workstation (REVPAW), our key performance indicator, has risen 6 per cent. over the same period."

"In April, global occupancy of 73 per cent. was 12 percentage points higher than in April 2003. This has been helped by significant new outsourcing deals with Royal Bank of Scotland, GlaxoSmithKline, Caisse d'Epargne and Citigroup."

"The Group's forward order book remains strong, with 78 per cent. of budgeted business for 2004 already contracted and booked. Enquiries are up 30 per cent. year-on-year."

"Overall, Regus' progress remains firmly on track and the Board is committed to delivering sustainable profits at the earliest opportunity."

Since this date, the Group has continued to improve overall performance and has seen a consistent improvement in its free cash flow at the operating level. The Group's forward order book remains strong, with 83 per cent. of budgeted revenues for 2004 already contracted or booked as at 1 June 2004. Global occupancy levels<sup>10</sup> have continued to rise, standing at 74 per cent. in May 2004, an improvement of 15 per cent. since May 2003 and of 4 per cent. since December 2003. Revenue has steadily grown in the year to date, up 6 per cent. in May 2004 compared with December 2003 (at constant exchange rates) and REVPAW has risen 8 per cent. in the period from December 2003 to May 2004 (at constant exchange rates) over the same period. Revenues in June 2004 have shown a further £600,000 improvement over May 2004 (at constant exchange rates). The Group has also reduced discounting in 2004 and increased average list prices with the average sales price for new and renewal customers

increasing from £347 per workstation in December 2003 to £387 per workstation in May 2004.<sup>11</sup> Accordingly, the Group has experienced improving EBITDA margins across all its geographical regions.

Since its emergence from Chapter 11 proceedings in October 2003, HQ has enjoyed similar positive trends in its underlying business performance. Occupancy has increased by 3.9 percentage points to 79.8 per cent. in the seven-month period to May 2004, with average pricing declining only marginally by one per cent. over the same period. With costs largely flat across the period, HQ has experienced a growth trend in EBITDA and has been EBIT positive since March 2004.

The Board believes that the future prospects of the Group and following the Acquisition, the Enlarged Group will be driven by the continuing trend in workspace outsourcing and continued economic recovery in its principal markets (most notably the US) underpinning continued improvement in occupancy rates, prices and group profitability. In addition, the Board believes that the performance of the Enlarged Group will be impacted by the extent to which integration of the two businesses is successful and the synergies and benefits outlined above are achieved. The Board does not currently envisage significant investment in new centres by the Enlarged Group in the immediate future.

In light of the trends currently experienced by the Group, the Board believes the Group's, and following the Acquisition, the Enlarged Group's, prospects for the full year are good.

## **5. Principal Terms Of The Acquisition**

Under the terms of the Acquisition Agreement, the Company has agreed to purchase the entire issued share capital of HQ. First Closing of that agreement is expected to take place on 20 August 2004. The consideration payable to HQ's shareholders will be up to US\$287.5 million payable in cash. In addition, the Company will assume certain liabilities in connection with certain letters of credit issued by HQ for approximately US\$12.5 million and US\$15 million of costs arising as a result of the change of ownership of HQ.

On 28 June 2004, following the submission by Regus and HQ of the required forms, the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act ("HSR") commenced. On 2 July 2004, Regus and HQ were informed that early termination of the HSR waiting period had been granted. Thus, Regus' and HQ's obligations under HSR have been complied with.

It is expected that the closing of the Acquisition Agreement will take place in two stages: the First Closing and the Second Closing. It is expected that Regus will acquire at least 80% of the issued share capital of HQ at the First Closing and the remainder of the issued share capital of HQ at the Second Closing. It is expected that First Closing will take place on 20 August 2004.

The First Closing of the Acquisition Agreement is conditional upon (amongst other things) the satisfaction or waiver of the following conditions:

1. the unconditional receipt of proceeds sufficient from the Placing and Open Offer and the Debt Facilities to consummate the transactions contemplated by the Acquisition Agreement;
2. the passing of the Ordinary Resolutions;
3. the representations and warranties given by HQ and Regus in the Acquisition Agreement being true and accurate at First Closing except as could not reasonably be expected to have a material adverse effect on the HQ group as a whole or the Regus group as whole (as applicable);

4. those HQ shareholders who were not initially parties to the Acquisition Agreement agreeing to be bound by the terms of the Acquisition Agreement;
5. Regus having received, contemporaneously with the First Closing, share capital of HQ representing, in aggregate, at least 80% (by voting power and value) of the issued share capital of HQ; and
6. the certificates for HQ share capital being received by Regus at the First Closing, together with the certificates for HQ share capital deposited into escrow at the First Closing pending the Second Closing (with respect to those HQ shareholders participating in the Second Closing), representing at least 90% of each of the HQ class A common shares and the HQ class B common shares, in each case on a fully-diluted basis.

The HQ shareholders who are initially party to the Acquisition Agreement have agreed to exercise their drag-along rights under the existing HQ stockholders agreement amongst the HQ shareholders (further detail on this agreement is given in the Prospectus), and to use their commercially reasonable efforts to cause, each HQ shareholder who is not currently a party to the Acquisition Agreement to promptly execute a joinder agreement agreeing to be bound by the Acquisition Agreement and to sell its HQ shares to Regus on the terms set out in the Acquisition Agreement.

The Second Closing is conditional upon (amongst other things) the occurrence of the First Closing and the elapse of approximately two months from the First Closing date.

The Acquisition Agreement also provides that Regus will be obliged to pay a break fee of US\$2.875 million to HQ in certain circumstances. Regus has agreed, subject to Shareholder approval, which is being sought at the Extraordinary General Meeting, to increase the size of the break fee to US\$5 million. Further details will be given in the Prospectus.

## **6. Funding Of The Acquisition**

The Company intends that the net proceeds of the Placing and Open Offer and certain draw-downs to be made under the Debt Facilities will be used to finance the cash consideration payable at First and Second Closing under the Acquisition Agreement.

The principal terms of the Placing and Open Offer are set out below.

The Company has today obtained a binding commitment, subject to certain conditions, from Bear Stearns Corporate Lending Inc. to provide US\$155 million of Debt Facilities to the Group under the terms of an agreed form of credit agreement to be entered into on or before First Closing. The conditions to the commitment are set out in further detail in the Prospectus. The Debt Facilities will comprise a term loan of US\$110 million, a revolving credit facility of US\$25 million and a credit linked deposit facility of US\$20 million for letters of credit. Subject to the satisfaction of the relevant conditions to draw-down under the Debt Facilities, part of the proceeds of the Debt Facilities will be available to pay part of the cash consideration payable under the Acquisition and to provide financing for general working capital requirements and general corporate purposes of the Group and to pay certain fees associated with the Acquisition.

## **7. Principal Terms Of The Placing and Open Offer**

The Board proposes to raise approximately £119 million net of expenses by the issue of up to 196,958,408 New Ordinary Shares pursuant to the Placing and Open Offer.

The Open Offer is being made by Dresdner Kleinwort Wasserstein and KBC Peel Hunt as agents for and on behalf of the Company.

Qualifying Shareholders are being given the opportunity to subscribe under the Open Offer for up to 106,626,087 New Ordinary Shares at the Issue Price pro rata to their existing entitlements on the basis of:

**1 New Ordinary Share for every 4 Existing Ordinary Shares**

held at the close of business on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held. Entitlements to New Ordinary Shares will be rounded down to the nearest whole number of New Ordinary Shares. Fractional entitlements to New Ordinary Shares will not be allotted and will be disregarded. Accordingly, Shareholders holding fewer than 4 Existing Ordinary Shares will not be invited to subscribe under the Open Offer.

The Company has arranged for the Placing and Open Offer to be fully underwritten on a several basis by Dresdner Bank AG and KBC Peel Hunt in order to provide assurance as to the amount of capital to be raised pursuant to the Placing and Open Offer. In particular, pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed, on a several basis, to place (either directly or through one or more of their respective affiliates) all of the New Ordinary Shares with institutional and other investors and, to the extent that they fail to do so, themselves, subscribe for the New Ordinary Shares.

Maxon Investments, a company wholly owned by Mark Dixon, has irrevocably undertaken to the Company and the Underwriters not to take up its entitlements under the Open Offer in respect of 90,332,321 New Ordinary Shares in aggregate. The Underwriters are seeking to place the New Ordinary Shares the subject of this undertaking on a conditional basis, but not subject to clawback, with institutional investors.

The Underwriters are seeking to place a further 106,626,087 New Ordinary Shares (being all of the New Ordinary Shares less the Firm Placed Shares) on a conditional basis, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

The Placing and the Open Offer is conditional upon:

- The passing of the Ordinary Resolutions at the EGM (or any valid adjournment thereof);
- Each condition to the Acquisition Agreement either (1) having been satisfied, (2) being capable of being satisfied contemporaneously with the closing of the Placing and Open Offer or (3) having been unconditionally waived in full;
- The Debt Facilities have been entered into and each condition to draw-down under the Debt Facilities either (1) having been satisfied, (2) being capable of being satisfied contemporaneously with the closing of the Placing and Open Offer or (3) having been unconditionally waived in full;
- The Underwriting Agreement having become unconditional in all respects and not having been terminated prior to Admission of the New Ordinary Shares; and
- Admission of the New Ordinary Shares becoming effective by 20 August 2004 or such later date (not being later than 13 September 2004) as the Company or the Underwriters may in their discretion determine.

If Admission has not occurred by 12 September 2004, because the conditions relating to the Acquisition Agreement and Debt Facilities having become unconditional have not been satisfied, the Underwriters will waive such conditions provided that in their reasonable opinion such conditions are likely to be satisfied by 13 October 2004.

In the event that the Acquisition Agreement is terminated for any reason at any time prior to Admission then the Placing and Open Offer will not complete. On Admission of the New Ordinary Shares, the Placing and Open Offer will complete. If, following Admission of the New Ordinary Shares the Acquisition does not complete for any reason, the Board's current intention is that the net proceeds of the Placing and Open Offer will be invested on a short term basis and the Board will consider returning the proceeds of the Placing and Open Offer (after deduction of certain transaction costs) to Shareholders. The Company currently has no distributable reserves. Accordingly, in the event that the Board did determine to return any such proceeds to Shareholders, it is likely that the Company would need to effect a reduction in capital under section 135 of the Companies Act or similar process. Any such return may have adverse tax implications for Shareholders.

Application will be made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange's Market for listed securities.

The Company expects that First Closing of the Acquisition and Admission of the New Ordinary Shares will become effective on 20 August 2004.

If the Placing and the Open Offer do not become unconditional in all respects, then no New Ordinary Shares will be issued under the Placing and Open Offer and all monies received by the Receiving Agent will be returned to applicants without interest and at their risk as soon as possible thereafter.

Full details of the Open Offer, including the procedure for application and payment, will be set out in the Prospectus.

The New Ordinary Shares will be issued credited as fully paid and will rank pari passu in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared or paid thereon following Admission of the New Ordinary Shares. No temporary documents of title will be issued.

## **8. Directors' interests**

The Directors and their connected parties are entitled to subscribe for 91,558,999 New Ordinary Shares under the Placing and Open Offer.

Maxon Investments, a company wholly owned by Mark Dixon, has irrevocably undertaken to the Company and the Underwriters not to take up its entitlements under the Open Offer in respect of in aggregate 90,332,321 New Ordinary Shares. The Underwriters are seeking to place the New Ordinary Shares the subject of this undertaking on a firm conditional basis with institutional and other investors.

Maxon Investments has irrevocably undertaken to the Company and the Underwriters to accept the Open Offer in respect of 1,000,000 New Ordinary Shares.

Rudolf Lobo currently does not intend to accept any New Ordinary Shares under the Open Offer. John Matthews currently intends to accept the Open Offer in respect of half of the New Ordinary Shares to which he is entitled under the Open Offer. Roger Orf currently intends to accept the Open Offer in respect of all of the New Ordinary Shares to which he is entitled under the Open Offer.

## **9. Dividends**

The Company currently expects to retain future earnings, if any, to finance the growth and development of its business. Therefore, the Company does not anticipate paying cash or other dividends in the immediate 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.

## **10. Overseas Shareholders**

The attention of Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, or who are holding Existing Ordinary Shares for the benefit of such persons, (including, without limitation, custodians, nominees, trustees and agents) or who have a contractual or other legal obligation to forward this document or the Application Form to such persons, is drawn to wording included in the Prospectus.

## **11. Recommendation and voting intentions**

The Board believes that the Acquisition, the increase in the break fee and the Placing and Open offer are in the best interests of Regus and its shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Ordinary Resolutions to be proposed at the Extraordinary General Meeting, as they intend to do (and, in relation to Mark Dixon, Maxon Investments has undertaken to do) in respect of their own beneficial holdings totalling 366,236,001 Existing Ordinary Shares (representing approximately 46.5 per cent. of the current issued share capital of the Company).

In addition, Cold Investments Limited has undertaken to vote in favour of the Ordinary Resolutions in respect of in aggregate approximately 28,587,511 Existing Ordinary Shares (representing approximately 3.6 per cent. of the current issued share capital of the Company).

Your Board, has received financial advice in relation to the Acquisition from Bear Stearns. In providing its advice to the Board, Bear Stearns has relied on the Directors' commercial assessment of the Acquisition.

Your Board has received financial advice in respect of the Placing and Open Offer from Dresdner Kleinwort Wasserstein and KBC Peel Hunt. In providing their advice to the Board, Dresdner Kleinwort Wasserstein and KBC Peel Hunt have relied on the Directors' commercial assessment of the Placing and Open Offer.

## **12. General**

A copy of the Prospectus (incorporating a Class 1 circular) in respect of the Acquisition and the Placing and Open Offer will be posted to Shareholders shortly. The Prospectus will contain a notice of EGM, which sets out the Resolutions to be put to Shareholders in order to seek their approval in respect of the Proposals. This announcement does not constitute an offer or invitation to purchase securities.

## Appendix I

Expected Timetable of Principal Events	2004
Record Date for the Open Offer	close of business on 15 July 2004
Ex-entitlement date for the Open Offer	16 July 2004
Prospectus and Application Forms posted to Qualifying Shareholders	21 July 2004
Open Offer Entitlements credited to stock account in CREST of Qualifying CREST Shareholders	22 July 2004
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 7 August 2004
Extraordinary General Meeting	10.00 a.m. on 9 August 2004
Recommended latest time for requesting withdrawal of Open Offer Entitlements from CREST	4.30 p.m. 11 August 2004
Latest time for depositing Open Offer Entitlements into CREST	3.00 p.m. 12 August 2004
Latest time and date for splitting of Application Forms (to satisfy bona fide market claims)	3.00.p.m. on 12 August 2004
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	11.00 a.m. on 16 August 2004
Commencement of dealings in the New Ordinary Shares and CREST stock accounts credited	8.00 a.m. on 20 August 2004
First Closing of the Acquisition	20 August 2004

If you have any queries on the procedure for application and payment, you should contact Capita IRG, quoting the serial number on your Application Form. The Receiving Agent will only give advice on matters of procedure, and will not give financial advice in relation to the action to be taken by Shareholders.

### General Notes:

(i) The dates set out in the expected timetable of principal events above and the dates mentioned throughout this document and also in the Application Form may be adjusted by Regus with the agreement of the Underwriters, in which event details of the new dates will be notified to the UK Listing Authority and to the London Stock Exchange and, where appropriate, to Shareholders.

(ii) References to times in this document are to London time unless otherwise stated.

(iii) The expected date of Admission of New Ordinary Shares may be unilaterally extended at the discretion of the Company and/or the Underwriters by up to 25 days.

## Appendix II

### Risk factors

*In addition to the other information presented in this document, the following risk factors should be carefully considered by Shareholders when deciding what action to take in relation to the Placing and Open Offer and the Extraordinary General Meeting and by others when deciding whether to make an investment in the Company. Additional risks and uncertainties not presently known to the Directors, or that the Board currently considers immaterial, may also adversely affect the business of the Group and, following the Acquisition, the Enlarged Group and the trading price of the Shares. If any of the risks actually occur, the business, financial condition or results of future operations of the Group or, following the Acquisition, the Enlarged Group could be materially adversely affected. In that case, the trading price of the Shares could decline and investors might lose all or part of their investment.*

*The risk factors described below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.*

*The risks and uncertainties are described under the following general categories:*

- ▶ *Risks relating to Regus, the Group and, following the Acquisition, the Enlarged Group.*
- ▶ *Risks associated with the serviced office market.*
- ▶ *Risks relating to the Acquisition and the Placing and Open Offer.*

### **RISKS RELATING TO REGUS, THE GROUP AND, FOLLOWING THE ACQUISITION, THE ENLARGED GROUP**

***If demand for the Group's, and following the Acquisition, the Enlarged Group's services falls, the profitability of the Group and, following the Acquisition, the Enlarged Group will be disproportionately affected due to the long-term nature of the Group's and, following the Acquisition, the Enlarged Group's lease commitments***

The Group leases substantially all of its business centre locations. 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 for a period between 3 and 18 months. If demand for serviced offices falls for whatever reason (see "Risks Associated with the Serviced Office Market"), the Group is likely to be unable to build or maintain occupancy rates, prices or revenues. If revenues decline, the Group may not immediately be able to reduce its lease costs and may also be 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. As a direct result of the economic turndown the Group has seen average prices reduce, especially where price has been sacrificed for term. There is no certainty that the Group will be able to increase prices if conditions improve. Similar considerations apply to the HQ Group and will apply in relation to the Enlarged Group.

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

Revenues derived from current occupancy levels at the Group's and the HQ Group's business centres have generally matched payment terms to suppliers (principally landlords), thereby reducing working capital needs. However, the nature of the Group's and the HQ Group's business is such that a reduction in revenues, with no immediate decline in cost base, may lead to significant working capital requirements in the business.



***The Group is and, following the Acquisition, the Enlarged Group will be, dependent on its Chief Executive***

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

***The Group's leases contain upward only rent reviews that could adversely impact Regus' and, following the Acquisition, the Enlarged Group's cost base***

Both the Group and the HQ Group are exposed to movements in property markets. For example, all of the UK leases of the Group's UK associate (substantially all of which are guaranteed by Regus Limited and Regus Business Centre B.V.), 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 and, following the Acquisition, the Enlarged 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 (for instance, as a result of an economic downturn), the rent payable by the Group, the HQ Group and, following the Acquisition, the Enlarged 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 cannot assure Shareholders that the Group and, following the Acquisition, the Enlarged Group will be able to maintain its margins in these circumstances. Likewise, in the event of a reduction in the prices that the Group, the HQ Group and, following the Acquisition, the Enlarged Group charges its customers, whether as a result of a reduction in demand for serviced offices or otherwise, the Group, the HQ Group and, following the Acquisition, the Enlarged Group would not be entitled to reduce the rent payable by the Group and, following the Acquisition, the Enlarged Group even following rent reviews. In addition, the majority of the Group's, the HQ Group's and, following the Acquisition, the Enlarged Group's other leases contain upward only rent reviews which are fixed or are linked to then prevailing market rental rate.

***The Group is and, following the Acquisition, the Enlarged Group will be exposed to foreign exchange, interest rate, economic and, in some instances, political risks as well as other geographical risks related to the 52 countries in which the Group operates and, following the Acquisition, the Enlarged Group will operate, which could cause an adverse impact on the business of the Group and, following the Acquisition, the Enlarged Group***

The Group operates and, following the Acquisition, the Enlarged Group will operate business centres in 52 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 and, following the Acquisition, the Enlarged Group will be 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. Regus' international operations also expose the Group and, following the Acquisition, will expose the Enlarged 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 conducts and, following the Acquisition, the Enlarged Group will conduct business in 52 countries, substantially all of its revenue and costs are derived from countries outside the UK and therefore in currencies other than pounds sterling. Since Regus' reporting currency is pounds sterling, movements in currency exchange rates can have an impact on the Group's and, following the Acquisition, the Enlarged Group's revenue and operating profit/loss.

### ***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 and, following the Acquisition, the Enlarged Group's revenue and operating profit/loss.

### ***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. Regus 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 cannot assure Shareholders that the costs, timing or disruption of refurbishment will not impact the business of the Group or, following the Acquisition, the Enlarged 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 cannot assure Shareholders that reinstatement costs and, if the Group or, following the Acquisition, the Enlarged 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 Shares may have difficulty assessing the business of the Group and, following the Acquisition, the Enlarged 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 Shares may have difficulty assessing the business of the Group and, following the Acquisition, the Enlarged 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 believes that none of these other public companies is comparable to Regus 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 and, following the Acquisition, the Enlarged Group from guarantees given by Regus Limited and Regus Business Centre B.V.***

Regus Limited and Regus Business Centre B.V. have given 113 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 Limited and/or B.V. to seek bankruptcy protection or liquidation.

***The Group is and, following the Acquisition, the Enlarged Group will be subject to the control of Mark Dixon***

As a substantial shareholder of Regus, Mark Dixon may be able to exercise control over the Group's and, following the Acquisition, the Enlarged 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 Shares. Regus and, following the Acquisition, the Enlarged Group's business goals and those of Mr. Dixon may not always remain aligned. As a result, the market price of Shares could be adversely affected. However, Mr Dixon, while serving as a Director, is under a fiduciary duty at law in that capacity to act in the best interests of Regus. Maxon Investments, the investment vehicle wholly owned by Mark Dixon, has irrevocably undertaken to vote in favour of the Ordinary Resolutions at the EGM. Maxon Investments has provided a letter to the Company in accordance with 3.12 of the Listing Rules.

***Substantial sales of Shares could cause the price of Shares to decline***

There can be no assurance that the Directors and executive officers of Regus, Maxon Investments or other Shareholders (including those person who are issued Consideration Shares at Completion under the Acquisition Agreement) will not elect to sell their Shares. The market price of Shares could decline as a result of any sales of such Shares by the Directors, executive officers of Regus or Shareholders or the perception that these sales could occur. If these, or any other, sales were to occur, Regus may have difficulty in offering or selling securities in the future at a time or at a price it deems appropriate.

***Dividends are not anticipated and payment of dividends is subject to restrictions***

The Board does not anticipate that Regus will pay any dividends in the immediate future. In addition, covenants in the Debt Facilities will restrict the ability of the Enlarged Group to pay dividends and will prohibit the payment of dividends and certain other payments. Certain institutional investors may only invest in dividend-paying equity securities or may operate under other restrictions that may prohibit or limit their ability to invest in the Enlarged Group.

***Historical financial information will not be comparable***

The financial condition and results of operations of the Enlarged Group from and after Completion will not be comparable to the financial condition and results of operations reflected in the historical financial statements contained in this document given the significant financial and operational restructuring that HQ underwent as part of its Chapter 11 administration process.

**RISKS ASSOCIATED WITH THE SERVICED OFFICE MARKET**

***The Group operates and, following the Acquisition, the Enlarged Group will operate in a competitive environment. If the Group or, following the Acquisition, the Enlarged 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 cannot assure Shareholders 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 or HQ.

If the Group, or following the Acquisition, the Enlarged Group is unable to respond adequately to the competitive challenges it will face or establish a sustainable competitive advantage, it may be unable to maintain or expand its network of centres and it may lose market share. In addition, in more competitive markets there may be pressure on the Group's or, following the Acquisition, the Enlarged 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 and, following the Acquisition, in which the Enlarged Group will operate. While the majority (by revenue) of the Group's customer base is and, following the Acquisition, the Enlarged Group's customer base will be 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, and following the Acquisition, the Enlarged 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 cannot assure Shareholders 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 (and, following the Acquisition, the Enlarged Group will operate) its centres, the Group and, following the Acquisition, the Enlarged 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 and economic growth may slow in key markets***

There can be no assurance that the factors that Regus 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. There can also be no assurance that economic growth will be sufficiently strong in the markets in which the Group operates in, or following the Acquisition, the markets in which the Enlarged Group will operate in, to allow the Group or the Enlarged Group to build or maintain occupancy, rates or prices.

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

In some markets, the attraction of serviced offices 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.

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

When experiencing difficult economic conditions, landlords of traditional office spaces 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 may seek to reduce their costs by subletting, possibly at below market rents. In each case, serviced offices may be less attractive.

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

Changes in work practices could occur which would be detrimental to the business of the Group and, following the Acquisition, the Enlarged 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 employees of current and potential customers of the Group and, following the Acquisition, the Enlarged Group to participate in video conferences at home or to participate in virtual meetings from home using broadband internet or other technologies.

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

The Group and, following the Acquisition, the Enlarged Group will continue to provide its customers with access to information technology and telecommunications equipment and infrastructure for use in their businesses. There may be significant developments in the technology that businesses use that would require the Group and, following the Acquisition, the Enlarged Group to make further substantial investments in new technology to maintain its competitive position or that would adversely affect the marketability of the Group or, following the Acquisition, the Enlarged Group's products.

**RISKS RELATING TO THE ACQUISITION**

***The Enlarged Group's success will be dependent upon its ability to integrate HQ following the Acquisition***

The Enlarged Group's success will be dependant upon Regus' ability, following the Acquisition, to integrate HQ, without significant disruption to its business.

In particular, the Board recognises that the Acquisition will represent a major expansion in the size and complexity of the Group's operations.

Following the Acquisition, Regus may need to make changes to the management structure of HQ and the existing Group business that it believes are appropriate to optimise the benefits available from the combination of the businesses. Accordingly, the Enlarged Group may face unforeseen difficulties as those changes are carried out.

Although the Directors believe that this is unlikely, issues may come to light during the course of the integration of HQ into the Enlarged Group that may have an adverse effect on the financial condition and results of operations of the Enlarged Group.

Regus can offer no assurance that it will realise the potential benefits of the Acquisition (including, without limitation, potential synergies and cost savings) to the extent and within the timeframe contemplated. If Regus is unable to integrate successfully HQ, it could have a negative impact on the results of operations or financial condition of the Enlarged Group.

***The Enlarged Group's success will be dependent upon its ability to retain key HQ personnel***

Regus appreciates the high quality of the key HQ management, in particular the quality of many of its senior personnel, and is keen to retain those individuals who wish to stay with the Enlarged Group. The success of the Enlarged Group will, to an extent, depend on the ability to retain these key employees and the successful integration and motivation of those key HQ personnel who are retained by the Enlarged Group. Following completion of the Acquisition, many HQ employees will have realised their investment in HQ which for a number of these employees will

be material in comparison to their yearly earnings. With this in mind, Regus intends to offer appropriate incentives to certain HQ personnel who decide to remain with the Enlarged Group after the Acquisition.

However, it is possible that some of these individuals will decide not to remain with the Enlarged Group following Completion, or, having initially decided to stay, then decide to leave after a short period of time. It is possible that the failure to retain these individuals will adversely affect the ability of the remaining management to integrate HQ successfully into the Enlarged Group.

***The Enlarged Group's success will be dependent upon its ability to operate successfully a dual-branded product offering***

The Acquisition will provide the Group with a platform for a dual-brand strategy. The success of the Enlarged Group will, to an extent, depend on the ability of the Enlarged Group to successfully execute its strategic goals while maintaining both the "Regus" brand and the "HQ" brand. Further, although the "Regus" brand is well established at the premium end of the serviced office market and the "HQ" brand offers a lower price product, it is possible that the "Regus" brand and the "HQ" brand may in some markets, or at certain stages in the economic cycle, compete for the same customers.

***The Enlarged Group's success will be dependent upon its ability to retain successfully existing customers and to develop its customer base***

Both the Group and HQ base their business models on, among other things, commitment to customer service. While the Enlarged Group will also retain commitment to customer service as one of its core values, it is possible that the level of attention devoted by the management of the Enlarged Group to the integration of HQ will be such that their attention will be temporarily diverted away from the day-to-day management of the Enlarged Group's business and the implementation of its core values. Although the Directors are confident that this will not be the case, it is possible that customer service levels could suffer if management is unable to focus adequately on day-to-day management of the Enlarged Group. The Directors recognise that customer service plays an important role in attracting new and retaining existing Group and HQ customers. Any decrease in customer service levels could therefore have the effect of alienating existing and new customers.

Although the Directors intend to incorporate the best elements of the HQ business model into the existing Regus model, resulting in a strengthened model for the Enlarged Group, certain elements of the HQ model which some existing HQ customers find attractive may not be maintained. It is possible the phasing out of such elements may alienate existing HQ customers.

In either case, the Enlarged Group runs the risk of alienating existing or future Group or HQ customers who, as a result, may choose to use alternative operators. This loss of customers could have a negative impact on the results of operations or financial condition of the Group and, following the Acquisition, the Enlarged Group.

In addition, the opportunity of the Enlarged Group to cross-sell the existing Regus portfolio of business centres to HQ's customer base and vice versa may not develop as expected.

***The Enlarged Group will be exposed to an increased financial risk profile from the assumption of Debt Facilities***

As a result of entering into the Debt Facilities in order to finance the Acquisition, the Enlarged Group will need to meet its debt servicing obligations as they fall due, increasing the fixed cost base of the business for the foreseeable future. As a result of this introduction of financial leverage to the Enlarged Group, any reduction in revenues and earnings before interest will

have a more significant impact on operating profitability than before the Debt Facilities were entered into.

***The Enlarged Group will have increased exposure to fluctuations in the US economy***

Following the Acquisition, it is expected that approximately 55 per cent. of the Enlarged Group's revenues will be generated in the United States. Therefore, the overall success of the Enlarged Group's business will depend, in part, upon the sustained recovery of economic conditions in the United States.

***Exchange rate risk***

The New Ordinary Shares are priced in pound sterling. Accordingly, any investor outside the United Kingdom will be subject to adverse movements in their local currency against pound sterling.

## Appendix III

### IMPORTANT INFORMATION FOR PLACEES ONLY

MEMBERS OF THE PUBLIC ARE NOT ELIGIBLE TO TAKE PART IN THE PLACING. THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN ARE DIRECTED ONLY AT PERSONS SELECTED BY KBC PEEL HUNT LIMITED (“**KBC PEEL HUNT**”) OR DRESDNER KLEINWORT WASSERSTEIN SECURITIES LIMITED (“**DrKWS**”) WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ARE “INVESTMENT PROFESSIONALS” WITHIN THE MEANING OF ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS 2000 (FINANCIAL PROMOTION) ORDER 2001 (AS AMENDED) (THE “ORDER”), ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) (“HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.”) OF THE ORDER OR ARE OTHERWISE PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “**RELEVANT PERSONS**”). THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT ACTIVITY TO WHICH THIS APPENDIX AND THE TERMS AND CONDITIONS SET OUT HEREIN RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

**This announcement and the information contained herein are not for publication or distribution, directly or indirectly in the United States, Australia, Canada, France, the Netherlands, New Zealand, the Republic of Ireland, the Republic of South Africa, Switzerland or in any jurisdiction in which such publication or distribution is unlawful.**

Unless otherwise defined in this Appendix, terms used in this Appendix shall have the same meanings as those set out in Appendix IV.

### Terms and Conditions of the Placing

If a Relevant Person chooses to participate in the Placing by making or accepting an offer to acquire New Ordinary Shares (each such Relevant Person being hereinafter referred to as a “**Placee**” and together, as the “**Placees**”) it will be deemed to have read and understood this Appendix in its entirety and to be making or accepting such offer on the terms and conditions and to be providing the representations, warranties and acknowledgements, contained in this Appendix. In particular, each Placee represents, warrants and acknowledges to each of KBC Peel Hunt and DrKWS for itself and as agent for the Company that it:

- (a) is outside the United States and will only offer and sell the New Ordinary Shares outside the United States in offshore transactions in accordance with Regulation S of the US Securities Act of 1933; or



- (b) is a QIB who has duly executed a US investor representation letter in the form provided to it (or otherwise agreed with KBC Peel Hunt and DrKWS) and has delivered the same to KBC Peel Hunt or DrKWS, or who is deemed to have made representations contained in such US representation letter.

The New Ordinary Shares referred to in this announcement have not been and will not be registered under the US Securities Act, and may not be offered or sold within the United States absent registration or an exemption from registration. There will be no public offer of the New Ordinary Shares in the United States.

The New Ordinary Shares have not been recommended, approved or disapproved by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the Prospectus or this announcement. Any representation to the contrary is a criminal offence in the United States.

This announcement and Appendix do not constitute an offer to sell or issue or a solicitation of an offer to buy or subscribe for New Ordinary Shares in any jurisdiction including, without limitation, the United Kingdom, the United States of America or any of the Excluded Territories. The distribution of this announcement and the Placing and issue of the New Ordinary Shares in certain jurisdictions may be restricted by law. Persons to whose attention this announcement has been drawn are required by the Company, KBC Peel Hunt, DrKWS and Dresdner Bank AG to inform themselves about and to observe any such restrictions.

#### **Details of the Placing and Open Offer Agreement and the Placing of the New Ordinary Shares**

The Company has entered into a Placing and Open Offer Agreement with KBC Peel Hunt and Dresdner Bank AG under which:

- (a) each of Dresdner Bank AG and KBC Peel Hunt has agreed that it or one or more of its affiliates shall, as agent of the Company, invite Qualifying Shareholders on the register at the close of business on the Record Date, on the terms and subject to the conditions contained in the Prospectus and in the accompanying Application Form, to subscribe for the New Ordinary Shares to be issued under the Placing and Open Offer on the basis of one New Ordinary Share for every four Existing Ordinary Shares in the Company then held;
- (b) DrKWS (as an affiliate of Dresdner Bank AG) will, as agent of the Company, procure Placees to subscribe (or failing which Dresdner Bank AG will subscribe) on the terms and subject to the conditions set out therein for fifty per cent. of the New Ordinary Shares (subject, other than in respect of the Firm Placed Shares, to clawback to satisfy valid applications for New Ordinary Shares by Qualifying Shareholders under the Open Offer); and

- (c) KBC Peel Hunt will, as agent of the Company, procure Placees to subscribe (or failing which itself subscribe) on the terms and subject to the conditions set out therein for fifty per cent. of the New Ordinary Shares (subject, other than in respect of the Firm Placed Shares, to clawback to satisfy valid applications for New Ordinary Shares by Qualifying Shareholders under the Open Offer).

The New Ordinary Shares to be placed in the Placing shall be allocated by DrKWS or KBC Peel Hunt (as the case may be) to the Placees, subject to the terms set out below.

Maxon Investments has irrevocably undertaken to the Company and the Underwriters not to take up its entitlements under the Open Offer in respect of an aggregate 90,332,321 New Ordinary Shares. These shares (the "**Firm Placed Shares**") will be placed on a conditional basis, not subject to clawback. The remaining New Ordinary Shares being offered to Placees (the "**Conditional Placing Shares**") are being placed subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

The New Ordinary Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Ordinary Shares of the Company and will be issued subject to the memorandum and articles of association of the Company.

#### **Application for Listing and Admission to Trading**

Application will be made to the UKLA for admission of the New Ordinary Shares to the Official List of the UKLA and to the London Stock Exchange for admission to trading of the New Ordinary Shares on the London Stock Exchange's market for listed securities. It is expected that Admission will take place at 8.00am on 20 August 2004.

#### **Principal Terms of the Placing**

This Appendix gives details of the terms and conditions of, and the mechanics of participation in, the Placing.

1. DrKWS (as an affiliate of Dresdner Bank AG) and KBC Peel Hunt will arrange the Placing as agents for and on behalf of the Company. Participation will only be available to persons invited to participate by KBC Peel Hunt or DrKWS. KBC Peel Hunt or DrKWS, as the case may be, will determine in their absolute discretion the extent of each Placee's participation in the Placing which will not necessarily be the same for each Placee.
2. The price payable per New Ordinary Share shall be the Issue Price.
3. A Placee's commitment to subscribe for a fixed number of Firm Placed Shares and up to a maximum number of Conditional Placing Shares will be agreed with and confirmed to it orally by DrKWS or KBC Peel Hunt, as the case may be (the "**Placing Commitment**") and a written confirmation (a "**Confirmed Commitment Letter**") will be dispatched as soon as possible thereafter. The Placing Commitment and the Confirmed Commitment Letter will set out the maximum placing participation of New Ordinary Shares which are being placed with

each Placee and this will be broken down into the number of New Ordinary Shares which are being placed with each Placee firm and the number of New Ordinary Shares which are being placed with each Placee subject to scaling back to satisfy valid applications from Qualifying Shareholders under the Open Offer. The oral confirmation to the Placee by DrKWS (as an affiliate of Dresdner Bank AG) or KBC Peel Hunt (the "**Oral Confirmation**") constitutes an irrevocable, legally binding contractual commitment to DrKWS or, as the case may be, KBC Peel Hunt (in each case as agent for the Company) to subscribe for the fixed number of Firm Placed Shares allocated to it and up to a maximum number of Conditional Placing Shares allocated to it on the terms and conditions set out in this Appendix. The Oral Confirmation will also include details of any commissions payable to the Placees in respect of their Placing Commitments (details of which will also be included in the Confirmed Commitment Letter). A form of confirmation will be included with each Confirmed Commitment Letter and this should be completed and returned to:

- (i) Simon Green at DrKWS by fax on +44 (0)20 7929 2951 by 3.00 p.m. on 16 July 2004, in the case of a Form of Confirmation issued by DrKWS; and
- (ii) James Reynolds at KBC Peel Hunt by fax on +44 (0)20 7972 0112 by 3.00 p.m. on 16 July 2004, in the case of a Form of Confirmation issued by KBC Peel Hunt.

Participation in the Placing shall not prejudice any rights of a Placee to participate in the Open Offer. However, a Placee shall be entitled to have its placing participation in respect of Conditional Placing Shares only reduced by the number of New Ordinary Shares, if any, that such Placee subscribes for under the Open Offer. In order to benefit from such a reduction, a Placee is required to certify the number of New Ordinary Shares (if any) which he, together with any funds which he manages, have subscribed for under the Open Offer by completing a set-off form (the "**Set-Off Form**") which will be attached to the Confirmed Commitment Letter. To be valid, a Set-Off Form must be returned by the Placee to Capita Registrars and copied to either Simon Green by fax on +44 (0)20 7929 2951 (for Placees who have provided a Placing Commitment to DrKWS) or to James Reynolds by fax on +44 (0)20 7972 0112 (for Placees who have provided a Placing Commitment to KBC Peel Hunt), in each case by 11.00a.m. on the Closing Date of the Open Offer, whether the Placee subscribes for New Ordinary Shares in the Open Offer by way of an Application Form or through CREST. The Set-Off Form must give full details of each holding including the number of New Ordinary Shares taken up under the Open Offer.

4. Details of the results of the Open Offer, and the number of Conditional Placing Shares for which Placees will be required to subscribe (which, together with its Firm Placed Shares, shall not in respect of any Placee in any event exceed that Placee's total Placing Commitment) and the amount payable by the Placee to the Company in respect of the Conditional Placing Shares will be notified to Placees as soon as possible after the Open Offer closes, which is expected to be at 11.00 a.m. on 16 August 2004. It is anticipated that this notification will occur on the next working day following the Closing Date which, on the current timetable, will mean the notification will be made on 17 August 2004. Subject to the effects of the set-off arrangements described above, the New Ordinary Shares not taken up by Qualifying Shareholders pursuant to the Open Offer will be allocated among Placees as

nearly as possible in the same proportions as their respective conditional commitments to subscribe for Conditional Placing Shares bears to the total number of Conditional Placing Shares.

5. Commissions will not be paid on the Firm Placed Shares. Details of commissions in respect of Conditional Placing Shares will be included in the Oral Confirmation and the Confirmed Commitment Letter.

In the event that the conditions set out in the Placing and Open Offer Agreement are not satisfied in accordance with their terms or waived, or if the Underwriters (acting jointly) exercise their right to terminate the Placing and Open Offer Agreement in accordance with its terms (see further below under the heading "Right to Terminate under the Placing and Open Offer Agreement"), the placing commission will be adjusted in accordance with the terms notified to Placees in the Oral Confirmation and set out in the Confirmed Commitment Letter. In the event that the Placing and Open Offer Agreement is terminated due to force majeure at any time before Admission, no placing commissions will be payable (see below under the heading "Right to Terminate under the Placing and Open Offer Agreement").

### **Conditions of the Placing**

The obligations of Dresdner Bank AG and KBC Peel Hunt under the Placing and Open Offer Agreement are conditional on:

1. the passing of the Ordinary Resolutions at the EGM (or any valid adjournment thereof);
2. the formal approval of the Prospectus as a prospectus by the UKLA in accordance with the Listing Rules and the Prospectus so approved not differing from the prospectus in the form agreed at the date of this announcement in any respect which the Underwriters (acting jointly and reasonably) consider to be material to any Placee or material in the context of the Placing and Open Offer;
3. each condition to first closing under the Acquisition Agreement either (1) having been satisfied, (2) being capable of being satisfied contemporaneously with the closing of the Placing and Open Offer or (3) having been unconditionally waived in full;
4. the Debt Facilities having been entered into and each condition to drawdown under the Debt Facilities either (1) having been satisfied, (2) being capable of being satisfied contemporaneously with the closing of the Placing and Open Offer or (3) having been unconditionally waived in full;
5. the Underwriting Agreement having become unconditional in all respects and not having been terminated prior to Admission of the New Ordinary Shares; and
6. Admission becoming effective by no later than 8:00 a.m. on 20 August 2004 (or by such other date, being not later than 8:00 a.m. on 13 September 2004, the Company or the Underwriters may in their discretion determine).

Without prejudice to the Underwriter's right to terminate the Placing and Open Offer Agreement, if the conditions set out in paragraphs 3 and 4 above have not been satisfied by 12 September 2004, the Underwriters will waive such conditions provided that such conditions are likely in the reasonable opinion of the Underwriters to be satisfied by 13 October 2004.

If (a) the conditions set out in the Placing and Open Offer Agreement are not satisfied or waived by Dresdner Bank AG and KBC Peel Hunt by 8:00 a.m. on 13 September 2004 (subject as mentioned above) or (b) the Placing and Open Offer Agreement is terminated in the circumstances specified below, the Placing and Open Offer will lapse and the rights and obligations of the Placees hereunder shall cease and determine at such time and no claim can be made by any Placee in respect thereof. In such event, all monies (if any) paid by the Placees to DrKWS or KBC Peel Hunt, as the case may be, at such time shall be returned to the Placees at their sole risk without any obligation on the part of the Company, the Underwriters or any of their respective affiliates to account to the Placees for any interest earned on such funds.

By participating in the Placing, the Placee agrees that its rights and obligations hereunder terminate only in the circumstances described above and will not be capable of rescission or termination by the Placee.

The Placees acknowledge and agree that the Company, Dresdner Bank AG and KBC Peel Hunt may exercise their contractual rights to waive or to extend the time and/or date for fulfilment of any of the conditions in the Placing and Open Offer Agreement (save that fulfilment of the condition that Admission occurs by 8:30 a.m. on 13 September 2004 may not be waived). Any such extension or waiver will not affect Placees' commitments. Neither Dresdner Bank AG nor KBC Peel Hunt nor the Company shall have any liability to any Placee (or to any other person whether acting on behalf of a Placee or otherwise) in respect of the exercise of its contractual rights to waive or to extend the time and/or date for the satisfaction of any condition in the Placing and Open Offer Agreement or in respect of the Placing generally.

#### **Right to Terminate under the Placing and Open Offer Agreement**

Dresdner Bank AG and KBC Peel Hunt acting jointly will be entitled in their absolute discretion by notice to the Company prior to Admission to terminate their obligations under the Placing and Open Offer Agreement if:

1. there has been a breach of any of the warranties given by the Company to Dresdner Bank AG and KBC Peel Hunt in the Placing and Open Offer Agreement which in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, is material in the context of the Placing and Open Offer;
2. any of the conditions in the Placing and Open Offer Agreement is not fulfilled or waived by the date specified for satisfaction (or such later date as may be agreed between the Company and the Underwriters) or otherwise becomes incapable of satisfaction and such non-satisfaction is in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, material in the context of the Placing and Open Offer;

3. any warranty, if repeated at any time up to Admission (by reference to the facts and circumstances then existing) would be untrue, inaccurate or misleading to an extent which in is in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, material in the context of the Placing and Open Offer;
4. the Company fails in any respect, which is in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, material in the context of the Placing and Open Offer, to comply with any of the Company's obligations under the Placing and Open Offer Agreement;
5. there happens, develops or comes into effect:
  - (i) a general moratorium on commercial banking activities in London declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United Kingdom; or
  - (ii) the outbreak or escalation of hostilities or acts of terrorism involving the United Kingdom or the declaration by the United Kingdom of a national emergency or war,which (in any case by itself or together with any other such occurrence) is in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, adverse and material in the context of the Placing and Open Offer;
6. there happens, develops or comes into effect any other crisis of international or national effect or any change in currency exchange rates or controls or in any financial, political or economic conditions or any other calamity or crisis which in any such case is in the reasonable opinion of Dresdner Bank AG and KBC Peel Hunt, acting jointly, materially adverse in the context of the Placing and Open Offer; or
7. there is an adverse change or matter which would require the Company to submit a supplementary prospectus to the UK Listing Authority for its approval.

Each Placee agrees with KBC Peel Hunt, DrKWS and Dresdner Bank AG that the exercise by the Underwriters of their right of termination of the Placing and Open Offer Agreement, or any other discretion under such agreement, shall be within the absolute discretion of Dresdner Bank AG and/or (as the case may be) KBC Peel Hunt and that neither DrKWS, Dresdner Bank AG nor KBC Peel Hunt shall have any liability to any Placee whatsoever in connection with any decision to exercise or not to exercise any such right or discretion.

By participating in the Placing, each Placee agrees that its rights and obligations hereunder (i) terminate only in the circumstances described above or in the event that the Placing and Open Offer Agreement expires or otherwise fails to become unconditional, and (ii) will not be capable of rescission or termination by any Placee.

Commitments from Placees will be made solely on the basis of the information contained in this announcement and in the placing proof of the Prospectus which will be circulated to Placees on

the date of this announcement. Each Placee, by accepting a participation in the Placing, agrees that the content of this announcement (including this Appendix III) and such placing proof are exclusively the responsibility of the Company and confirms to Dresdner Bank AG, DrKWS, KBC Peel Hunt and the Company that it has not relied on any other information, representation, warranty or statement made by or on behalf of DrKWS or KBC Peel Hunt (in each case, other than the amount of the relevant Placing participation and amount of placing commissions communicated by KBC Peel Hunt or, as the case may be, DrKWS in the Oral Confirmation), Dresdner Bank AG or any of their respective affiliates or the Company and none of KBC Peel Hunt, DrKWS, Dresdner Bank AG or any of their affiliates or the Company will be liable for the decision of any Placee to accept an invitation to participate in the Placing based on any other information, representation, warranty or statement which the Placee may have obtained or received (regardless of whether or not such information, representation, warranty or statement was given or made by or on behalf of any such persons). Each Placee acknowledges and agrees, to each of KBC Peel Hunt, DrKWS and Dresdner Bank AG for itself and as agent for the Company, that except in relation to the information in this announcement and in the placing proof of the Prospectus to be circulated to Placees on the date of this announcement it has relied on its own investigation of the business, financial or other position of the Company in deciding to participate in the Placing. Nothing in this paragraph shall exclude the liability of any person for fraudulent misrepresentation.

### **Registration and Settlement**

Settlement of transactions in the New Ordinary Shares following Admission will take place within CREST, subject to certain exceptions. Each of DrKWS and KBC Peel Hunt reserve the right to require settlement for and delivery of the New Ordinary Shares to the Placees in such other means that it deems necessary if delivery or settlement is not possible within CREST within the timetable set out in this announcement or would not be consistent with the regulatory requirements in the jurisdictions of such Placees.

**Following the result of the Open Offer, each Placee that has agreed to subscribe for Conditional Placing Shares shall be sent a further confirmed commitment letter (the "Further Confirmed Commitment Letter") that will state the number of Conditional Placing Shares allocated to it and the aggregate amount owed by it.**

It is expected that settlement of the Placing will occur on 20 August 2004. On that date each Placee must settle the full amount owed by it in respect of the Conditional Placing Shares notified to it in the Further Confirmed Commitment Letter and the Firm Placed Shares allocated to it. DrKWS or KBC Peel Hunt, as the case may be, may (having consulted the Company) specify a later settlement date at their absolute discretion. Payment must be made in cleared funds. The payment instructions for settlement in CREST and settlement outside of CREST will be set out in the Confirmed Commitment Letter. The trade date in CREST of the Firm Placed Shares is expected to be 16 July 2004 and the trade date in CREST of the Conditional Placing Shares is expected to be the date of the Further Confirmed Commitment Letters, which is expected to be 17 August 2004.

Interest is chargeable daily on payments to the extent that value is received after the due date at the rate per annum of 2 percentage points above the Barclays Bank plc base rate. If a Placee does not comply with these obligations, DrKWS or, as the case may be, KBC Peel Hunt may sell the New Ordinary Shares allocated to such Placee (as agent for such Placee) and retain from the proceeds, for its own account, an amount equal to the Issue Price plus any interest due. The relevant Placee will, however, remain liable, *inter alia*, for any shortfall below the Issue Price and it may be required to bear any stamp duty or stamp duty reserve tax (together with any interest or penalties) which may arise upon the sale of its New Ordinary Shares on its behalf.

Time shall be of the essence as regards the obligations of Placees to settle payment for the Firm Placed Shares and Conditional Placing Shares and to comply with their other obligations under this Appendix III.

If New Ordinary Shares are to be delivered to a custodian or settlement agent of a Placee, the relevant Placee should ensure that its Confirmed Commitment Letter is copied and delivered immediately to the relevant person within that organisation.

Insofar as New Ordinary Shares are registered in the name of a Placee or that of its nominee or in the name of any person for whom the Placee is contracting as agent or that of a nominee for such person, such New Ordinary Shares will, subject as provided below, be so registered free from any liability to UK stamp duty or stamp duty reserve tax.

#### **Representations and Warranties by Placees**

By participating in the Placing, each Placee (and any persons acting on its behalf):

1. represents and warrants that it has read this announcement in its entirety and acknowledges that its participation in the Placing will be governed by the terms of this Appendix III;
2. represents, warrants and undertakes that it will subscribe for the Firm Placed Shares and, subject to scaling back as described above, the Conditional Placing Shares allocated to it in the Placing and pay for the same in accordance with the terms of this Appendix III failing which the relevant New Ordinary Shares may be placed with other subscribers or sold as DrKWS or, as the case may be, KBC Peel Hunt determines and without liability to such Placee;
3. undertakes and acknowledges that its obligations under the Placing are irrevocable;
4. represents and warrants that it is entitled to subscribe for and purchase New Ordinary Shares under the laws of all relevant jurisdictions which apply to it and that it has fully observed such laws and obtained all such governmental and other guarantees and other consents which may be required thereunder and complied with all necessary formalities;
5. represents and warrants that it is not entitled to rely on any information (including, without limitation, any information contained in any management presentation given in relation to the Placing and Open Offer) other than that contained in this announcement (including this



Appendix III) or the placing proof of the Prospectus circulated to Placees on the date of this announcement;

6. represents and warrants that the issue to the Placee, or the person specified by such Placee for registration as holder of New Ordinary Shares, will not give rise to a liability under any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
7. represents and warrants that it has complied with its obligations in connection with money laundering under the Criminal Justice Act 1993 and the Money Laundering Regulations 2003 (the "Regulations") and, if it is making payment on behalf of a third party, that satisfactory evidence has been obtained and recorded by it to verify the identity of the third party as required by the Regulations;
8. represents and warrants that it is a person falling within Article 19(5) or Article 49(2)(a) to (d) of the Order and undertakes that it will acquire, hold, manage or dispose of any New Ordinary Shares that are allocated to it for the purposes of its business;
9. represents and warrants that it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the New Ordinary Shares in, from or otherwise involving the United Kingdom and will not sell or offer to sell the New Ordinary Shares in a manner which will result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended;
10. represents and warrants that it has all necessary capacity and authority, its obligations under the Placing are valid, binding and enforceable and it has obtained all necessary consents and authorities to enable it to commit to participation in the Placing and to perform its obligations in relation thereto and will honour its obligations (including, without limitation, in the case of any person on whose behalf it is acting, all necessary consents and authorities to agree to the terms set out or referred to in this announcement);
11. acknowledges that participation in the Placing is on the basis that it is not and will not be a client or customer of DrKWS, Dresdner Bank AG or KBC Peel Hunt and that DrKWS, Dresdner Bank AG and KBC Peel Hunt have no duties or responsibilities to it for providing the protections afforded to their clients or customers or for providing advice in relation to the Placing or in respect of any representations, warranties, undertakings or indemnities contained in the Placing and Open Offer Agreement nor for the exercise or performance of any of DrKWS's, Dresdner Bank AG's or KBC Peel Hunt's rights and obligations thereunder, including any right to waive or vary conditions or exercise any termination right;
12. undertakes and agrees that (i) the person whom it specifies for registration as holder of the New Ordinary Shares will be (a) the Placee or (b) a nominee of the Placee, (ii) neither DrKWS, Dresdner Bank AG, KBC Peel Hunt nor the Company will be responsible for any liability to stamp duty or stamp duty reserve tax resulting from a failure to observe this requirement and (iii) the Placee and any person acting on its behalf agrees to subscribe on the basis that the New Ordinary Shares will be allotted to the CREST stock account of

DrKWS or, as the case may be, KBC Peel Hunt who will hold them as nominee on its behalf until settlement in accordance with its standing settlement instructions;

13. acknowledges that any agreements entered into by it pursuant to these terms and conditions shall be governed by and construed in accordance with the laws of England and it submits (on behalf of itself and on behalf of any person on whose behalf it is acting) to the exclusive jurisdiction of the English courts as regards any claim, dispute or matter arising out of any such contract;
14. acknowledges that the New Ordinary Shares have not been and will not be registered under the US Securities Act or under the relevant securities laws of any state of the United States, any Excluded Territory or any state within any Excluded Territory and, subject to certain limited exceptions, may not be directly or indirectly offered, sold, renounced, transferred, taken-up or delivered in, into or within those jurisdictions;
15. undertakes and agrees not to reoffer, resell, pledge or otherwise transfer the New Ordinary shares except (i) outside the United States in offshore transactions in accordance with Regulation S under the Securities Act; (ii) pursuant to Rule 144A under the Securities Act; or (iii) pursuant to Rule 144 under the Securities Act (if available), and in either case in compliance with all applicable laws and regulations
16. undertakes and agrees that neither it nor its affiliates (as defined in Rule 501(b) of the US Securities Act) nor any person acting on its or their behalf have engaged in or will engage in any "general solicitation or general advertising" (within the meaning of Regulation D under the US Securities Act) or "directed selling efforts" (as defined in Regulation S under the US Securities Act) in connection with any offer or sale of the Shares;
17. acknowledges that the agreement to settle each Placee's subscription (and/or the subscription of a person for whom it is contracting as agent) free of stamp duty and stamp duty reserve tax depends on the settlement relating only to a subscription by it and/or such person direct from the Company for the Shares in question. Such agreement assumes that the New Ordinary Shares are not being acquired in connection with arrangements to issue depositary receipts or to transfer the New Ordinary Shares into a clearance service. If there were any such arrangements, or the settlement related to other dealing in the Placing Shares, stamp duty or stamp duty reserve tax may be payable, for which neither the Company, DrKWS, Dresdner Bank AG nor KBC Peel Hunt will be responsible. If this is the case, the relevant Placee should take its own advice and notify KBC Peel Hunt, or, as the case may be, DrKWS and Dresdner Bank AG accordingly. In addition, Placees should note that they will be liable for any capital duty, stamp duty and all other stamp, issue, securities, transfer, registration, documentary or other duties or taxes (including any interest, fines or penalties relating thereto) payable outside the UK by them or any other person on the acquisition by them of any New Ordinary Shares or the agreement by them to acquire any Placing Shares; and
18. acknowledges that any monies of any Placee or any person acting on behalf of the Placee held or received by DrKWS or KBC Peel Hunt will not be subject to the protections conferred

by the FSA's Client Money Rules. As a consequence, these monies will not be segregated from the monies of DrKWS or, as the case may be, KBC Peel Hunt and may be used by DrKWS, or as the case may be, KBC Peel Hunt in the course of its business, and the relevant Placee or any person acting on its behalf will therefore rank as a general creditor of DrKWS or, as the case may be, KBC Peel Hunt.

The acknowledgements, undertakings, representations and warranties referred to above are given to each of the Company, DrKWS, Dresdner Bank AG and KBC Peel Hunt and are irrevocable. The Company, DrKWS, Dresdner Bank AG and KBC Peel Hunt will rely upon the truth and accuracy of the foregoing acknowledgements, undertakings, representations and warranties.

## Appendix IV

### Definitions

The following definitions apply throughout this Announcement unless the context requires otherwise:

“Acquisition”	the acquisition by Regus and its subsidiaries of all the issued common stock of HQ;
“Acquisition Agreement”	the agreement between (amongst others) Regus and HQ dated 16 July 2004 in connection with the Acquisition;
“Admission”	the admission of the New Ordinary Shares (i) to listing on the Official List and (ii) to trading on the London Stock Exchange’s market for listed securities becoming effective in accordance, respectively, with the Listing Rules and the Admission and Disclosure Standards;
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated May 2001 containing, <i>inter alia</i> , the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities;
“Application Form”	the form of application for use by Qualifying Shareholders in connection with the Open Offer;
“Australia”	The Commonwealth of Australia, its territories and possessions;
“Bear Stearns”	Bear, Stearns International Limited;
“Canada”	Canada and each province thereof;
“Company” or “Regus”	Regus Group plc;
Conditional Placing Shares	those New Ordinary Shares being offered to Placees subject to clawback to satisfy valid applications for New Ordinary Shares by Qualifying Shareholders under the Open Offer;
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which CRESTCo Limited is the operator (as defined in the CREST Regulations);
“CRESTCo Limited”	the operator of CREST;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);
“Debt Facilities”	means the term loan facility and revolving credit facility of, in

	aggregate, approximately \$155,000,000 to be entered into pursuant to the Debt Financing Agreement between among others Bear, Stearns & Co. Inc., as lead arranger and sole bookrunner, Bear Stearns Corporate Lending Inc., as Administrative Agent, Regus as guarantor and Regus Corporation, a subsidiary of Regus as borrower and the lenders from time to time party thereto to part fund the Acquisition;
“Debt Financing Agreements”	means (i) a commitment letter dated 16 <sup>th</sup> July 2004 between Bear, Stearns & Co. Inc., Bear Stearns Corporate Lending Inc. and Regus in connection with the Debt Facilities attaching the form of credit agreement proposed to be entered into pursuant to such commitment letter and (ii) a related fee letter dated 16 July 2004 between the same parties;
“Dresdner Bank AG”	Dresdner Bank AG (London Branch);
“EGM”	the extraordinary general meeting of the Company to be convened for the EGM Date pursuant to the notice of extraordinary general meeting contained in the Prospectus and at which the Resolutions are to be proposed;
“EGM Date”	the date on which the EGM is to be held, currently to be expected by 9 August 2004 August 2004
“Excluded Territories”	Australia, Canada, France, New Zealand, the Netherlands, the Republic of Ireland, the Republic of South Africa and Switzerland;
“Existing Ordinary Shares”	the fully paid Ordinary Shares in issue at the Record Date;
“Firm Placed Shares”	New Ordinary Shares, being those New Ordinary Shares which certain Qualifying Shareholders have, pursuant to irrevocable undertakings, irrevocably undertaken not to apply for under the Open Offer, as stated in the Circular;
“First Closing”	the first closing of the Acquisition agreement as described in this document
“FSA”	the Financial Services Authority;
“FSMA”	the Financial Services and Markets Act 2000;
“Gazette Notice”	a notice in the agreed form to be published in the London Gazette relating to the Open Offer;
“Group”	Regus and its subsidiaries and subsidiary undertakings;
“HQ” or the “HQ” Group	HQ Global Holdings, Inc.
“Issue Price”	62.25 pence per New Ordinary Share;

“Listing Rules”	the listing rules made pursuant to Part VI of FSMA;
“London Stock Exchange”	London Stock Exchange plc;
“New Ordinary Shares”	the new Ordinary Shares to be issued pursuant to the Placing and Open Offer;
“Official List”	the Official List of the UK Listing Authority;
“Open Offer”	the open offer of New Ordinary Shares to be made by DrKWS and KBC Peel Hunt as agents of the Company, to Qualifying Shareholders on the terms and conditions set out in the Prospectus and the Application Form
“Open Offer Entitlements”	an entitlement to subscribe for New Ordinary Shares allocated to a Qualifying Shareholder pursuant to the Open Offer
“Ordinary Shares”	ordinary shares of five (5) pence each in the capital of the Company;
“Placing”	the (i) conditional placing of the New Ordinary Shares (other than the Firm Placed Shares) with institutional and other investors by the Underwriters subject to clawback to satisfy valid applications for New Ordinary Shares by Qualifying Shareholders under the Open Offer, and (ii) conditional firm placing with institutional and other investors by the Underwriters of the Firm Placed Shares
“Placees”	Participants in the placing
“Placing and Open Offer Agreement”	the conditional placing and open offer agreement dated 16 July 2004 between the Company, Dresdner Bank AG and KBC Peel Hunt relating to the Placing and Open Offer, details of which will be set out in the Prospectus;
“Prospectus”	the prospectus to be issued by the Company in relation to the Placing and Open Offer;
“Qualifying Shareholders”	holders of Ordinary Shares on the register of members of the Company at the Record Date;
“Record Date”	the close of business on the record date from the Open Offer, currently expected to be 16 July 2004;
“Regulation S”	Regulation S under the US Securities Act;
“Resolutions”	the ordinary resolutions set out in the notice of the extraordinary general meeting contained in the Prospectus;
“Shareholders”	holders of Ordinary Shares;
“UK Listing Authority” or “UKLA”	the UK Financial Services Authority acting in its capacity as the competent authority for the purpose of Part VI of the FSMA and, in the exercise of its functions in respect of the admission to the Official List of the UK Listing Authority,

	otherwise than in accordance with Part VI of FSMA;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia;
“US Securities Act”	the US Securities Act of 1933;

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1. Assuming an exchange rate of £1: \$1.85, based on the £:\$ spot rate on 15 July 2004.
  2. Excludes the Group’s 42% UK associate.
  3. These figures exclude the Group’s 42% UK associate.
  4. These figures include the business centres operated by the HQ Group’s franchisees.
  5. This figure excludes managed, joint venture and franchised business centres.
  6. These figures exclude managed; joint venture and franchised business centres.
  7. This figure includes owned centres and excludes managed joint venture and franchised business centres.
  8. These figures exclude managed; joint venture and franchised business centres.
  9. References to the anticipated effect of the Acquisition on future earnings should not be interpreted as a profit forecast nor should this statement be interpreted to mean that the earnings of Regus following the Acquisition will necessarily match or exceed the historical published earnings.
  10. Excluding managed, joint venture and franchised business centres.
  11. Per month, at the exchange rates applicable in September 2003. These figures include joint venture business centres.