



Regus Group plc

Interim Report

Six months ended June 2004

Regus Group plc
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**Regus**

The re-organisation of our business has created a platform for growth and profitability. In the past six months, we have built a record forward order book and have seen a substantial rise in enquiries as well as a reduction of discounting for new sales. Costs remain firmly under control. As a result, we expect to see continued revenue growth and are on track to achieve our performance targets for 2004.

With the recent acquisition of HQ which has consolidated our position as the world's leading provider of global outsourced offices, Regus is well placed to deliver a continuing improvement in performance both in terms of cash generation and profitability.



John Matthews
Chairman
Regus Group plc

John Matthews

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

(in £ millions, except workstations)

	6 months ended 30 June 2004			6 months ended 30 June 2003 (Restated) ⁺⁺		
	Revenue	Contribution	Workstations	Revenue	Contribution	Workstations
EMEA ⁺	73.2	12.1	27,881	75.0	5.4	32,276
Americas	38.5	1.0	18,193	40.1	(10.9)	21,935
Asia	11.9	2.0	4,279	12.3	1.5	4,251
	123.6	15.1	50,353	127.4	(4.0)	58,462
UK mgmt fee	1.3	1.3	–	2.0	2.0	–
	124.9	16.4	50,353	129.4	(2.0)	58,462

+ EMEA represents Europe (excluding UK), Middle East and Africa
⁺⁺2003 has been restated to reflect the three geographical regions

Workstations

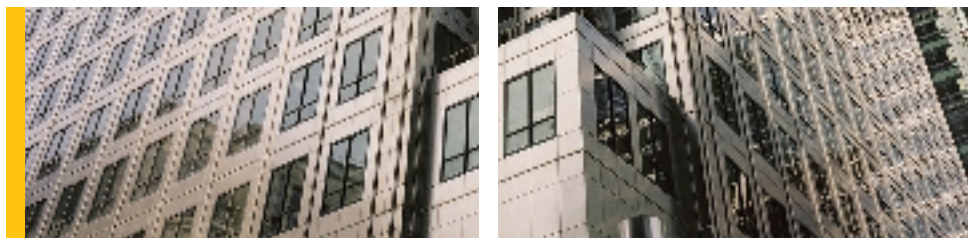
The Group has seen a significant improvement in workstation utilisation with occupancy improving by 13 percentage points to 72% (H1 2003: 59%). This has been achieved through a combination of capacity reductions (9%) and an increase in the number of occupied workstations (4%). In the USA, one of our key markets, workstation occupancy has increased by 11%.

REVPWA grew by 12% on H1 2003 due to growth in occupancy, price and services.

New sale and renewal prices grew 14% between January and June 2004.

Revenue

Group revenues of £124.9 million (H1 2003: £129.4 million) were 3.5% below last year, mainly due to a 14% decline in the average number of available workstations in the period, but also impacted by the weakening of the dollar. Compared to the first half of 2003, sterling has appreciated by 13% against the US dollar. At constant rates, revenues for the first half of the year increased by 2.4%.



Revenues for the Americas were 4% below the same period last year due to a lower inventory base and the weakening of the US dollar. Underlying revenues at constant rates increased by 7%. An improving US economy and our exit from Chapter 11 has improved trading.

EMEA revenues of £73.2 million (H1 2003: £75.0 million) were achieved despite a 14% capacity reduction in the region.

Asia Pacific revenues of £11.9 million were 3% below those of the same period last year (H1 2003: £12.3 million). Once again currency had an adverse impact with underlying revenues increasing by 2% on a constant currency basis.

Centre contribution

Centre contribution before exceptional items increased by £18.4 million to a positive contribution of £16.4 million (H1 2003: loss of £2.0 million). This represents a centre contribution margin of 13.1% (2003: loss of 1.5%) and our best half-year performance since 2001. The improvement in centre contribution has been driven by the combination of increasing local revenues on reduced inventory and a reduced cost base which has benefited from operational improvements and cost control programmes.

The Americas region accounted for £11.9 million of this improvement following the restructuring exercise in 2003. Centre contribution in EMEA increased by £6.7 million to £12.1 million, representing a margin of 16.6% of turnover (H1 2003: 7.2%). This improvement was principally realised through a re-alignment of the cost base and improved market conditions. Centre contribution in Asia Pacific increased by 33% to £2.0 million.

OPERATING REVIEW

During 2003, the key elements required to deliver improved performance were put in place and Regus Group entered 2004 with renewed confidence. Since January, we have worked to capitalise on those achievements and to drive the business towards profitability.

The key elements underlying our progress are detailed below. These strategies have helped us achieve month-on-month growth in underlying revenues throughout the first six months of this year. With the achievement of our current monthly run-rate, which stood at £21.7 million per month at June 2004, we are well placed to achieve our targets for the remainder of the year.

Strategic Re-Organisation

The reorganisation of our business has created a platform for growth and profitability. Nonetheless, we remain vigilant and we will continue to review each lease that comes up for renewal and ensure that we only enter into new agreements on the best possible terms going forward. We will also continue to rationalise where appropriate. For example, during the first half, we exited from underperforming centres in France, Czech Republic and the Netherlands. Centre contribution remains a key performance measure and our management reporting systems are designed to monitor sales performance at regional, local, centre and product level on a daily basis.

Cost Base Re-Alignment

We substantially reduced our costs – both fixed and variable – benefiting the first six months of 2004. When compared with the first six months of 2003, total costs are 18% down to £108 million (H1 2003: £131 million).

We have reduced costs without sacrificing the quality of our customer service. The drive to automate and centralise administration across all our centres has enabled staff to concentrate on customer needs. It has also led to significant improvements in staff productivity.

Cost management is now driven by a restructured Group Finance function and rigid electronic purchasing system controls remain in operation.

The Group retains adequate resources to be able to gear up quickly to meet and service increased customer demand without increasing overheads.

Operational Re-Structuring

The Group operates across four defined geographic regions – EMEA (all of Europe, Africa, Middle East but excluding the UK), Americas (United States, Canada and Latin America), Asia Pacific and the UK where the Group holds a 42% interest.

Middle layers of management have been eliminated and reporting lines have been shortened. Three Chief Operating Officers (COOs) manage the regions directly under the Group umbrella and report directly into Mark Dixon. The COOs have over 15 years' combined Regus experience and have been instrumental in delivering the Group's streamlined operating structure, refined product streams and revenue generation programmes.



Targeted Sales & Marketing Effort

The strength of the Group's 12-month forward order book for workstation income, which stands at £95 million at 31 August 2004, attests to its success in sales generation and conversion. During the first six months of 2004, year-on-year global enquiries rose by 25%. Co-ordination of marketing and communications activity at the Group level has allowed Regional Marketing Managers to conduct targeted and measurable sector and segmental marketing campaigns in key markets. Direct mail is playing an important tactical role in maintaining and growing brand awareness.

Our substantial investment in new media channels, such as search engine optimisation and marketing, has played a vital part in increasing enquiries, reducing cost per enquiry by 20% and improving return on investment.

Continued Focus On Corporate Outsourcing

Since January 2004, we have seen increasing demand for global office outsourcing services from multinationals, such as Royal Bank of Scotland, GlaxoSmithKline and Citigroup.

Increase in Capacity

The Group has responded to customer demand with a number of lower risk new investments. In Asia, we opened a new centre in Shanghai and a specialised conference centre in Sydney. Additionally, we have acquired a new centre in Korea and are planning to open centres in India. Our franchise network has continued to expand in Cyprus, Guatemala, Dubai and North Africa.

GROUP – SIX MONTH RESULTS AT ACTUAL EXCHANGE RATES

The re-organisation in 2003 resulted in a significant reduction in inventory, impacting both revenue and costs. In 2004 we have rebuilt the revenues back to 2003 levels over a lower cost base.

GROUP	H1 2004	H1 2003	Variance
EBITDA %	8.1%	(6.2) %	–
Turnover	£124.9m	£129.4m	£(4.5)m
Centre Contribution	£16.4m	£(2.0)m	£18.4m
EBITDA	£10.1m	£(8.0)m	£18.1m
Average occupancy	72.0%	59.0%	–
REVPWA	£4,961	£4,427	£534

- EBITDA significantly improved from H1 2003
- REVPWA up 12%
- Revenues up 2.4% at constant currency – negative variance due to currency
- 25% increase in enquiries year on year
- Substantial costs savings

EBITDA represents earnings before interest, tax, profit on sale of group undertakings, joint ventures, associates, exceptionals, depreciation and amortisation.

REGIONAL ANALYSIS – SIX MONTHS AT CONSTANT EXCHANGE RATES
AND EXCLUDING GROUP HOLDING COMPANIES

EMEA – (Europe, Middle East and Africa)

	H1 2004	H1 2003	Variance
EBITDA %	11.7%	7.1%	–
Turnover	£76.2m	£75.6m	£0.6m
Centre Contribution	£12.6m	£5.5m	£7.1m
EBITDA	£8.9m	£5.4m	£3.5m
Average occupancy	67.5%	56.0%	–
REVPAAW	£5,480	£4,685	£795

- EBITDA up 65% on H1 2003
- REVPAAW increased by 17%
- Strong EBITDA conversion into cash

AMERICAS – (United States, Latin America and Canada)

	H1 2004	H1 2003	Variance
EBITDA %	5.7%	(27.8)%	–
Turnover	£42.0m	£39.2m	£2.8m
Centre Contribution	£1.0m	£(10.5)m	£11.5m
EBITDA	£2.4m	£(10.9)m	£13.3m
Average occupancy	79.7%	59.5%	–
REVPAAW	£4,617	£3,664	£953

- EBITDA positive following successful cost reductions
- REVPAAW increase by 26%
- No longer consuming cash



ASIA PACIFIC

	H1 2004	H1 2003	Variance
EBITDA %	20.0%	18.5%	–
Turnover	£12.5m	£12.4m	£0.1m
Centre Contribution	£2.1m	£1.5m	£0.6m
EBITDA	£2.5m	£2.3m	£0.2m
Average occupancy	75.2%	74.2%	–
REVPAAW	£5,842	£5,834	£8

- EBITDA up 9%
- REVPAAW stable
- New centres in China (Shanghai) and Australia (Sydney) in July



PRODUCT ANALYSIS

Meeting Room Revenues – six months performance at constant exchange rates

£million	H1 2004	H1 2003	Variance	% Variance
EMEA	4.7	4.2	0.5	11.9%
AMERICAS	1.5	1.2	0.3	25.0%
ASIA PACIFIC	1.0	0.8	0.2	25.0%
REGUS GROUP	7.2	6.2	1.0	16.1%

- Product specialists added to generate increases
- Demand for outsourcing from IBM and Glaxo – major wins

Regus Virtual Office (RVO) – six months performance at constant exchange rates

£million	H1 2004	H1 2003	Variance	% Variance
EMEA	3.7	3.4	0.3	8.8%
AMERICAS	1.6	1.2	0.4	33.3%
ASIA PACIFIC	0.5	0.5	0.0	0.0%
REGUS GROUP	5.8	5.1	0.7	13.7%

- Product specialists added to generate increases

Administrative expenses

Although administrative expenses of £19.5 million were 6% higher than the same period last year, this is entirely due to £2.1 million of non-recurring supplier credits benefiting the first half of 2003.

Liquidity and capital resources

Cash at bank and in hand at 30 June 2004 was £58.3 million (December 2003: £85.0 million) of which £38.3 million (December 2003: £64.1 million) was free cash. Indebtedness (excluding finance leases) at 30 June 2004 was £8.9 million (December 2003: £9.2 million). The Group had outstanding finance lease obligations of £14.8 million (December 2003: £17.6 million), of which £7.1 million is due within one year.

Excluding exceptional Chapter 11 payments of £27.8 million, the cash inflow from operating activities in the six months ended 30 June 2004 was £3.7 million, our best performance since 2001. Net cash outflow before management of liquid resources and financing was £27.4 million after paying tax of £0.9 million, capital expenditure of £1.6 million and net interest of £1.1 million. During the period the Group received £2.1 million from the sale of own shares held by the ESOP Trust and £3.2 million relating to the balance of the rights issue proceeds received in January 2004.

Since the period end the Company announced the £163.5 million acquisition of HQ Global Workplaces, funded by a placing and open offer raising £119 million and new debt facilities of US \$155 million. Following completion on 20 August 2004 the Company had indebtedness (excluding finance leases) of £69.5 million and free cash of £50.5 million.

Balance sheet

The Group has net liabilities of £4.1 million at 30 June 2004. Based on current trading conditions and our view of the market, we believe we will be able to fund the ongoing business from existing cash resources and cash flows from operations.

ACQUISITION OF HQ GLOBAL WORKPLACES INC.

The acquisition of HQ Global Workplaces Inc., the leading provider of outsourced office solutions in the United States, was completed on 20 August 2004.

By combining the US national market leader with the global market leader, this acquisition consolidates Regus' position as the world's pre-eminent provider of global outsourced offices. We now serve customers in more than 650 centres across 240 cities in 52 countries. This is critical to our Group strategy for leadership in the field of



corporate property outsourcing. It offers US corporate customers access to the Group's unrivalled international business centre network as well as coast-to-coast coverage of North America for non-US customers.

We plan to run a dual brand strategy in the US, retaining the HQ brand to serve our mid-market customers. We believe this will significantly enhance cross-selling opportunities within the Group.

We are confident that the integration of HQ into the Group will provide a solid platform for developing our global corporate outsourcing business into 2005.

OUTLOOK

Trading at Regus continues to improve. In the past six months, we have continued to build our forward order book and have seen a substantial rise in enquiries as well as a reduction of discounting for new sales. Costs remain firmly under control. As a result we expect to see continued revenue growth and are on track to achieve our performance targets for 2004.

The integration of HQ into the Regus Group is at an early stage. Nonetheless, even in the early days the potential benefits are becoming apparent. We are already benefiting from cross-selling opportunities as

evidenced by contract wins with American Express, NASA and American Home Mortgage. In addition we have been able to capture and pool enquiries within the combined Group, with rates of sales conversion expected to rise as a result.

The implementation of our integration plan is on track and we are working to deliver synergy benefits of at least US \$20 million (£11 million) on an annualised basis.

Overall, the Group expects a continuing improvement in performance both in terms of cash generation and profitability.

Group Profit and Loss Account For the half year to 30 June 2004

	Note	6 months ended 30 June '04 (unaudited)	6 months ended 30 June '03 (unaudited)	Full year ended 31 Dec '03 (audited)
		£'000	£'000	£'000
Turnover (including share of joint ventures & associates)	1	159,733	165,281	324,904
Less: Share of turnover of joint ventures	1	(2,726)	(3,101)	(5,501)
Less: Share of turnover of associate	1	(32,084)	(32,763)	(62,822)
Group Turnover		124,923	129,417	256,581
Cost of sales (centre costs) before exceptional items		(108,483)	(131,370)	(239,683)
Exceptional cost of sales	2(a)	–	2,348	–
Cost of sales (centre costs) after exceptional items		(108,483)	(129,022)	(239,683)
Gross profit (centre contribution)		16,440	395	16,898
Administration expenses before exceptional items		(19,527)	(18,393)	(38,736)
Exceptional administration expenses	2(a)	–	(6,484)	(6,355)
Administration expenses		(19,527)	(24,877)	(45,091)
Group operating loss		(3,087)	(24,482)	(28,193)
Share of operating loss in joint ventures	1	(574)	(2,849)	(213)
Share of operating loss in associate	1	(2,907)	(626)	(3,722)
Total operating loss: Group and share of joint ventures and associate		(6,568)	(27,957)	(32,128)
Profit on sale of group undertakings	2(b)	–	8,712	6,585
Loss before interest and taxation	1	(6,568)	(19,245)	(25,543)
Net interest payable		(1,217)	(1,088)	(4,397)
Loss on ordinary activities before tax		(7,785)	(20,333)	(29,940)
Tax credit/(charge) on loss on ordinary activities		881	(1,141)	2,068
Loss on ordinary activities after tax		(6,904)	(21,474)	(27,872)
Equity minority interests		254	418	885
Retained loss for the period		(6,650)	(21,056)	(26,987)
Loss per ordinary share	3			
Basic & diluted (p)		(0.8)	(3.7)	(4.7)
Basic & diluted before exceptional items (p)		(0.8)	(4.5)	(4.7)

Group Balance Sheet

Note	As at 30 June '04 (unaudited) £'000	As at 30 June '03 (unaudited) £'000	As at 31 Dec '03 (audited) Restated £'000
Fixed assets			
Tangible assets	52,698	82,568	67,136
Investments			
Investments in associates	5,490	11,857	8,361
Other investments	5	29	5
Total investments	4 5,495	11,886	8,366
	58,193	94,454	75,502
Current assets			
Stock	152	217	144
Debtors: amounts falling due after more than one year	3,572	–	873
Debtors: amounts falling due within one year	56,421	61,347	62,290
Cash at bank and in hand	58,311	49,498	85,001
	118,456	111,062	148,308
Creditors: amounts falling due within one year	(119,858)	(170,775)	(134,189)
Net current (liabilities)/assets	(1,402)	(59,713)	14,119
Total assets less current liabilities	56,791	34,741	89,621
Creditors: amounts falling due after more than one year	(35,075)	(18,133)	(34,190)
Provision for deficit on joint ventures			
Share of gross assets	5,457	7,047	5,076
Share of gross liabilities	(7,035)	(11,407)	(6,073)
	4 (1,578)	(4,360)	(997)
Provisions for liabilities and charges due after more than one year	5 (24,269)	(61,759)	(52,554)
Net (liabilities)/assets	(4,131)	(49,511)	1,880
Capital and reserves			
Called up share capital	39,442	29,110	39,442
Share premium account	44,364	279,765	44,364
Own shares held	–	(15,882)	(10,453)
Other reserves	(22,732)	6,533	(22,711)
Profit and loss account	(63,983)	(348,389)	(47,686)
Equity shareholders' (deficit)/funds	(2,909)	(48,863)	2,956
Equity minority interests	(1,222)	(648)	(1,076)
	(4,131)	(49,511)	1,880

Cash Flow Statement
For the half year to 30 June 2004

Note	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) Restated £'000	Full year ended 31 Dec '03 (audited) Restated £'000
Cash outflow from continuing operating activities			
Net cash outflow	6a (24,089)	(13,693)	(14,622)
Returns on investments and servicing of finance			
Interest received	524	210	797
Interest paid	(248)	(205)	(1,750)
Interest paid on finance leases	(1,358)	(907)	(3,350)
	(1,082)	(902)	(4,303)
Taxation			
Tax paid	(851)	(718)	(1,951)
	(851)	(718)	(1,951)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(1,577)	(2,058)	(8,445)
Sale of tangible fixed assets	136	1,044	3,345
	(1,441)	(1,014)	(5,100)
Acquisitions and disposals			
Cash disposed with subsidiary	–	(1,137)	(1,137)
Sale of subsidiary undertakings	–	6,695	6,695
Investment in joint ventures	–	–	(412)
Cash acquired with subsidiary	–	–	53
	–	5,558	5,199
Cash outflow before management of liquid resources and financing	(27,463)	(10,769)	(20,777)
Management of liquid resources	6b 274	(2,737)	8,511
Financing	6b 1,969	1,202	47,616
(Decrease)/increase in cash in the period	6(c)(d) (25,220)	(12,304)	35,350

Statement of Total Recognised Gains and Losses

	6 months ended 30 June '04 (unaudited)	6 months ended 30 June '03 (unaudited) Restated	Full year ended 31 Dec '03 (audited) Restated
	£'000	£'000	£'000
Retained loss for the financial period	(6,650)	(21,056)	(26,987)
Currency translation differences	(1,289)	827	3,778
Total recognised gains and losses for the period	(7,939)	(20,229)	(23,209)
Prior period adjustment (as explained in note 7)	9,607	–	–
Total gains and losses recognised since the last annual report	1,668	(20,229)	(23,209)

Reconciliation of Movements in Shareholders' Funds

	30 June '04 (unaudited)	30 June '03 (unaudited) Restated	31 Dec '03 (audited) Restated
	£'000	£'000	£'000
Retained loss for the financial period	(6,650)	(21,056)	(26,987)
Shares issued under scheme of arrangement	–	–	29,256
Creation of merger reserve	–	–	(29,256)
Net proceeds of ordinary shares issued under rights issue	–	–	52,999
Other shares issued	–	–	1,697
Sale of shares held by ESOP (as explained in note 7)	2,074	3,563	3,666
Exchange differences	(1,289)	827	3,778
(Decrease)/increase in shareholders' funds	(5,865)	(16,666)	35,153
Shareholders' funds/(deficit) at 1 January (originally £3,803,000 before prior year adjustment of £847,000)	2,956	(32,197)	(32,197)
Shareholders' (deficit)/funds at period end	(2,909)	(48,863)	2,956

Notes

1. Segmental reporting

Group turnover	6 months ended 30 June '04 (unaudited)	6 months ended 30 June '03 (unaudited) Restated	12 months ended 31 Dec '03 (audited)
	£'000	£'000	£'000
UK*	32,084	32,763	62,822
EMEA+	73,636	74,999	148,488
Americas	40,839	43,240	85,641
Asia Pacific	11,847	12,278	24,174
Other++	1,327	2,001	3,779
	159,733	165,281	324,904
Total Group	124,923	129,417	256,581
Total joint ventures and associate	34,810	35,864	68,323

Loss before interest and tax	6 months ended 30 June '04 (unaudited)	6 months ended 30 June '03 (unaudited) Restated	12 months ended 31 Dec '03 (audited)
	£'000	£'000	£'000
UK*	(2,907)	(669)	(3,722)
EMEA+	3,098	9,420	846
Americas	(4,601)	(26,587)	(22,953)
Asia Pacific	651	237	826
Other	(2,809)	(1,646)	(540)
	(6,568)	(19,245)	(25,543)
Total Group	(3,087)	(15,770)	(21,608)
Total joint ventures and associate	(3,481)	(3,475)	(3,935)

* UK turnover represents our 42% interest in the ordinary shares of Regus Holdings (UK) Limited

+ EMEA represents Europe, Middle East and Africa

++ Other revenue represents management fees received from the UK associate and franchise income

2. (a) Exceptional costs/(credits)

	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) £'000	Full year ended 31 Dec '03 (audited) £'000
Cost of sales			
Onerous leases, related closure & restructuring costs	–	1,210	–
Adjustment to tangible asset impairment provision	–	(3,558)	–
	–	(2,348)	–
Administration expenses			
Onerous leases, related closure & restructuring costs	–	6,484	6,355

2. (b) Profit on sale of group undertakings

	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) £'000	Full year ended 31 Dec '03 (audited) £'000
Liquidation of Germany subsidiary	–	2,017	(110)
UK deferred consideration	–	6,695	6,695
	–	8,712	6,585

3. Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributable to ordinary shareholders of £6,650,000 (2003 half year loss of £21,056,000, full year loss of £26,987,000) by 787,591,000 (2003 half year 564,929,000, full year 574,805,000) ordinary shares, being the average number of ordinary shares in issue during the period.

Loss per ordinary share before exceptional items and profit on business disposals is based on losses of £6,650,000 (2003 half year loss of £25,632,000, full year loss of £27,217,000).

Losses per share are calculated using the following weighted average numbers of shares, adjusted to exclude own shares held under trust which have been treated as if they had been cancelled.

	6 months ended 30 June '04 '000	6 months ended 30 June '03 '000	Full year ended 31 Dec '03 '000
Ordinary shares – basic and diluted	787,591	564,929	574,805

4. Investments

	Group Interest in associate £'000	Group Interest in Joint Ventures £'000	Group Other Investments £'000	Total Investments £'000
At 1 January 2003 (Restated)	12,458	(1,623)	29	10,864
Exchange differences	–	369	(1)	368
Additions	–	259	–	259
Disposals	–	(164)	(23)	(187)
Share of retained losses	(4,097)	162	–	(3,935)
At 31 December 2003 (Restated)	8,361	(997)	5	7,369
Exchange differences	–	(6)	–	(6)
Share of retained losses	(2,871)	(575)	–	(3,446)
At 30 June 2004	5,490	(1,578)	5	3,917

5. Provisions

	Group Deferred tax £'000	Group Onerous lease obligations £'000	Group Total £'000
At 1 January 2003	(649)	57,891	57,242
Provided in period	–	10,310	10,310
Utilised in period	–	(5,630)	(5,630)
Transferred in year	649	–	649
Provisions released	–	(6,326)	(6,326)
Disposals	–	(1,845)	(1,845)
Exchange differences	–	(1,846)	(1,846)
At 31 December 2003	–	52,554	52,554
Utilised in period	–	(26,668)	(26,668)
Transferred	–	(763)	(763)
Exchange differences	–	(854)	(854)
At 30 June 2004	–	24,269	24,269
Amounts falling due within one year	–	12,429	12,429
Amounts falling due after one year	–	11,840	11,840

6. (a) Reconciliation of operating loss to operating cash flows

	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) £'000	Full year ended 31 Dec '03 (audited) £'000
Continuing operations			
Operating loss	(3,087)	(24,482)	(28,193)
Depreciation charge	13,353	12,320	29,525
Loss on disposal of fixed assets	184	5,180	1,686
Impairment of fixed assets	–	(3,558)	–
(Decrease)/increase in provisions	(3,233)	2,620	(5,581)
(Increase)/decrease in stocks	(10)	71	138
(Increase)/decrease in debtors	(2,586)	(208)	3,608
Decrease in creditors	(890)	(5,636)	(15,805)
Net cash inflow/(outflow) from continuing operations pre Chapter 11 creditor payments	3,731	(13,693)	(14,622)
Chapter 11 creditor payments	(27,820)	–	–
Net cash outflow from continuing operations	(24,089)	(13,693)	(14,622)

The Chapter 11 creditor payments of £27.8 million have been charged to exceptional items in prior years

6. (b) Financing and management of liquid resources

	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) £'000	Full year ended 31 Dec '03 (audited) £'000
Management of liquid resources			
New cash deposits	–	(13,011)	(18,851)
Repayment of cash deposits	274	10,274	27,362
	274	(2,737)	8,511
Financing			
New loans	64	2,420	–
Repayment of loans	(136)	(944)	(1,219)
Payment of principal under finance leases	(3,331)	(3,837)	(6,240)
Issue of equity shares	3,226	–	53,255
Issue costs	–	–	(1,846)
Sale of own shares held by ESOP	2,074	3,563	3,666
Issue of shares to minorities	72	–	–
	1,969	1,202	47,616

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

	6 months ended 30 June '04 (unaudited) £'000	6 months ended 30 June '03 (unaudited) £'000	Full year ended 31 Dec '03 (audited) £'000
(Decrease)/increase in cash in the period	(25,220)	(12,304)	35,350
Cash outflow from change in borrowings and finance leases	3,403	2,361	7,710
Cash (outflow)/inflow from change in liquid resources	(274)	2,737	(8,511)
Change in net funds from cash flows	(22,091)	(7,206)	34,549
Business disposals	–	(710)	(710)
Other non-cash items:			
New finance leases	(812)	465	–
Exchange movements	(611)	1,265	1,910
Movement in net funds in the period	(23,514)	(6,186)	35,749
Net funds at 1 January	58,133	22,384	22,384
Net funds at 30 June	34,619	16,198	58,133

6. (d) Analysis of changes in net funds

	At 1 Jan '04 £'000	Cashflow £'000	Other Non-cash changes £'000	Exchange movement £'000	At 30 June '04 £'000
Cash at the bank and in hand	64,105	(25,318)	–	(466)	38,321
Overdrafts	(862)	98	–	32	(732)
	63,243	(25,220)	–	(434)	37,589
Debt due after 1 year	(6,019)	84	14	23	(5,898)
Debt due within 1 year	(2,338)	(12)	(14)	63	(2,301)
Finance leases due after 1 year	(10,962)	150	2,884	239	(7,689)
Finance leases due within 1 year	(6,687)	3,181	(3,696)	130	(7,072)
	(26,006)	3,403	(812)	455	(22,960)
Liquid resources	20,896	(274)	–	(632)	19,990
	58,133	(22,091)	(812)	(611)	34,619

Liquid Resources at 30 June 2004 includes cash held on deposit of which £3.0 million (December 2003: £3.6 million) relates to collateral against bank loans; £14.9 million (December 2003: £17.3 million) relates to deposits which are held by banks and landlords as security against lease commitments by Regus operating companies and £2.1 million (December 2003: nil) held by the ESOP Trust. These amounts are blocked and are not available for use by the business.

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

7. Preparation of interim financial statements

Throughout these financial statements, the 2003 comparatives have been restated to reflect the adoption of UITF 38 "Accounting for ESOP trusts" which supersedes UITF 13 and requires presentation of an entity's own shares held in an ESOP trust to be deducted from shareholders' funds as opposed to being recognized as assets. The impact of adopting UITF 38 was to reduce investments and shareholders' funds by £ 847,000 as at December 2003. In addition the cash inflow on sale of own shares in relation to employee share schemes has been reclassified from "Sale of own shares" within "Capital expenditure and financial investments" to "Financing" in the Statement of Consolidated Cash Flows.

In the year ended December 2002 the shares held by the ESOP trust were written down to market value, resulting in a provision of £43.2 million. The provision attributable to the shares held as at 31 December 2003 was £9.6 million, this has been reversed and treated as a prior year adjustment in the statement of total recognised gains and losses.

During 2004 the ESOP Trust sold its remaining shares in the Company. A prior period adjustment gives rise to a cumulative credit adjustment to reserves of £9.3 million in the 2004 interim accounts, of which £2.1 million relates to 2004 and the balance of £7.2 million relates to 2003 and prior periods.

The results for each half-year are unaudited. The comparative figures for the year to 31 December 2003 have been abridged from the Group's financial statements for that year, which have been delivered to the Registrar of Companies. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under s237 (2) or (3) of the Companies Act 1985.

8. International Financial Reporting Standards

All European listed companies are required to adopt International Financial Reporting Standards (IFRS) for their financial statements from 2005, which will include comparative information for 2004. The Group is currently undertaking a detailed assessment of the impact of IFRS on its published financial statements.

Preparatory work is underway to enable the Group to report under IFRS for the first time when it announces its interim 2005 results.

9. Forward-looking statements

Statements in this report include 'forward-looking statements' that express expectations of future events or results. All statements based on future expectations rather than on historical facts are forward-looking statements that involve a number of risks and uncertainties, and Regus cannot give assurance that such statements will prove to be correct.