Regus Group plc
Annual Report & Accounts 2004

TAKE A MOMENT...

From Bristol to Boston to Bangkok and beyond, productivity boosting, money saving, workplace

HIGHLIGHTS [a]

£312.2m
TURNOVER
(2003: £256.6m)

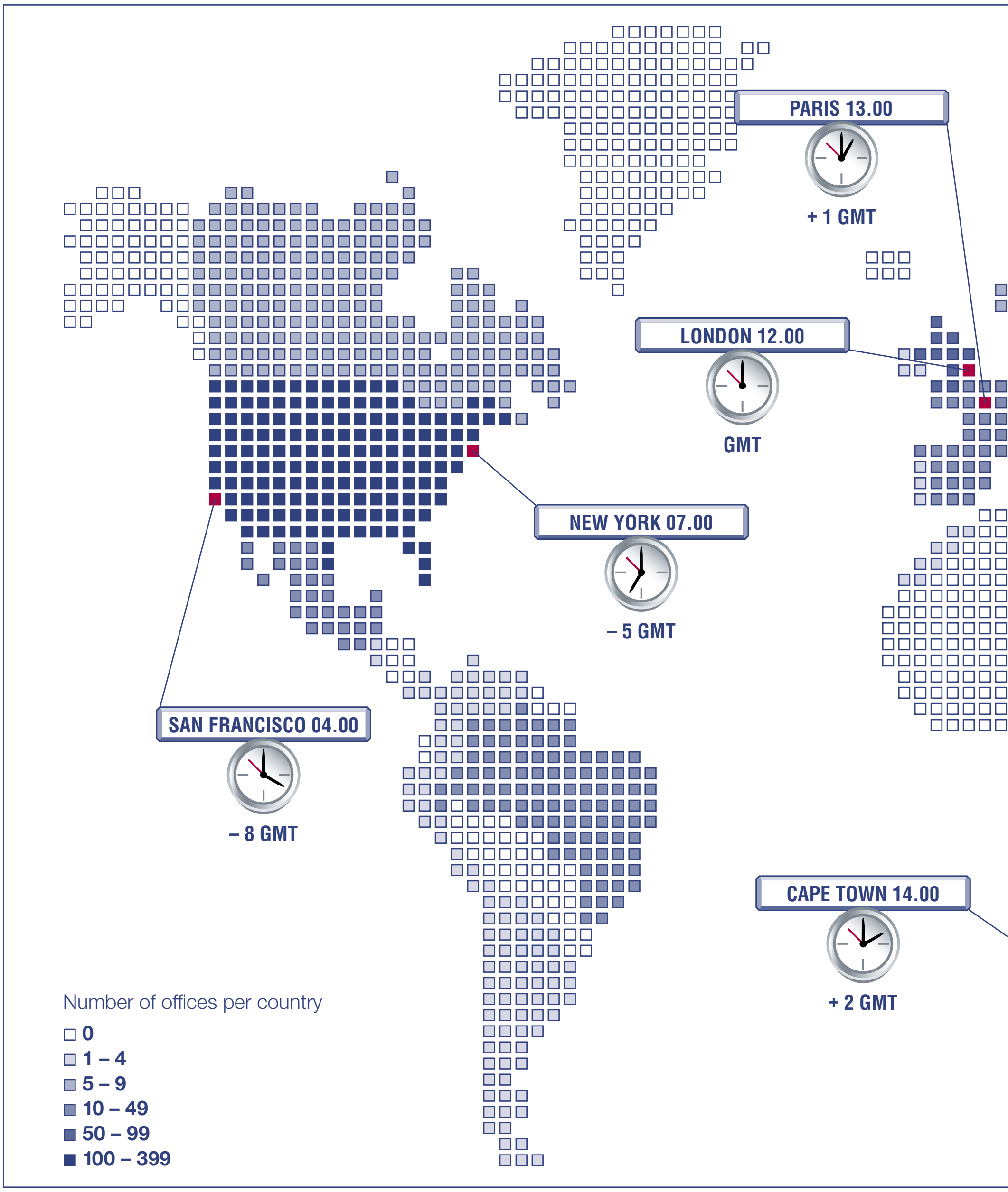
£44.6m
CENTRE CONTRIBUTION
(2003: £16.9m)

£4.1m
ADJUSTED PROFIT BEFORE INTEREST AND TAX [b]
(2003: £25.8m loss)

0.3p
ADJUSTED EARNINGS PER SHARE
(2003: 4.7p loss)

£5,252
REVPAW [c]
(2003: £4,614)

(a) Includes acquisitions.
(b) Adjusted profit before interest and tax is stated before charging exceptional items of £8.6 million (2003: £6.4 million); amortisation of goodwill of £2.0 million (2003: £nil) and profit on sale of subsidiaries of £0.1 million (2003: £6.6 million).
(b) REVPAW = Annualised Revenue Per Available Workstation.



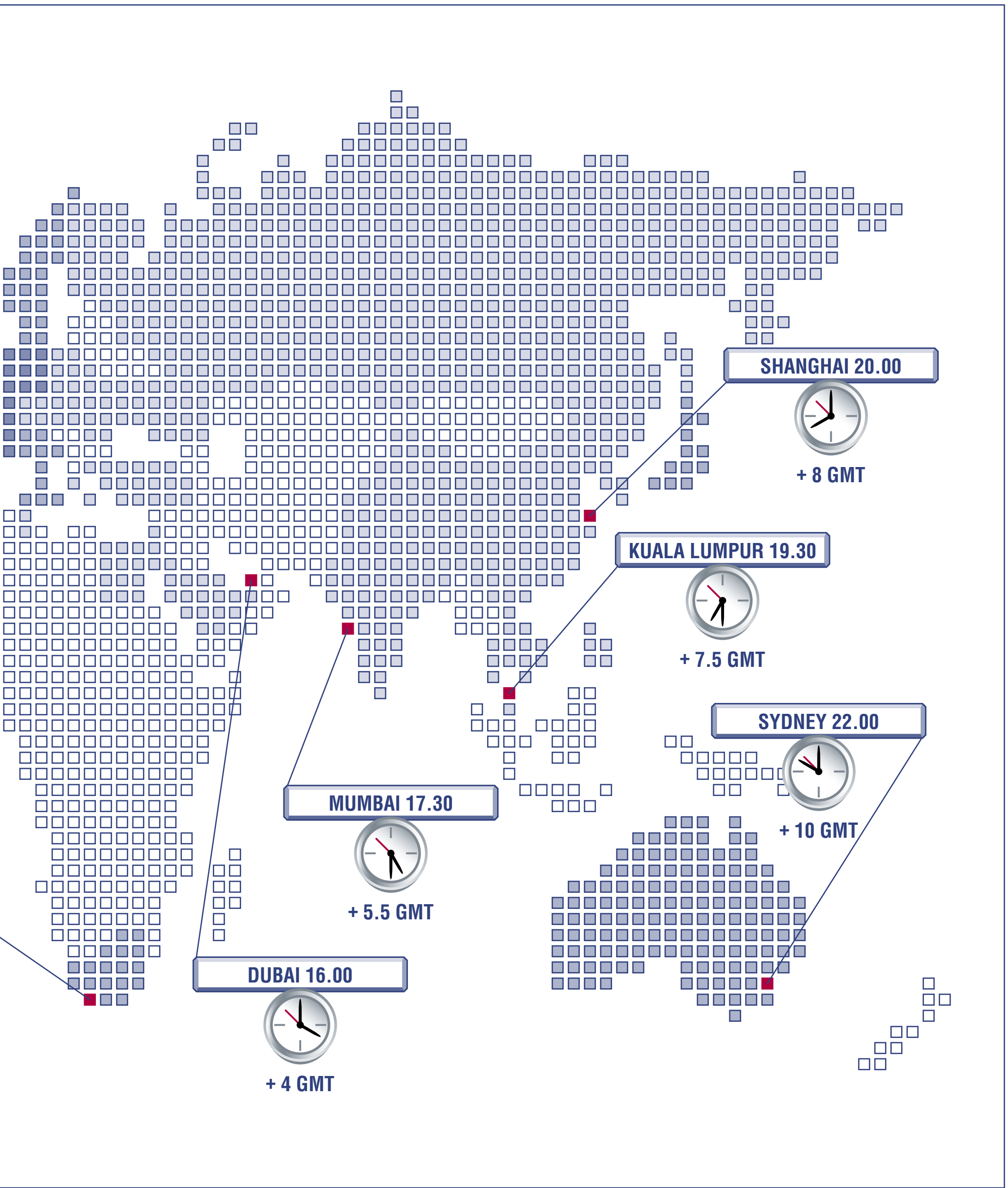
LONDON 12.00
GMT

Activity:
A TEAM OF LAWYERS AND BANKERS IS HARD AT WORK IN THEIR WAR ROOM ON AN M&A PROJECT

Workplace solution:
PROJECT OFFICE

...TO TAKE A CLOSER LOOK AT THE WORLD OF REGUS GROUP. TAKE MIDDAY IN LONDON, FOR EXAMPLE.

the Regus Group provides high quality, flexible, solutions to businesses.



AT A GLANCE [(a)]

660
LOCATIONS

57
COUNTRIES

263
CITIES

104,000
WORKSTATIONS

3,700
MEETING ROOMS

400
VIDEOCONFERENCE STUDIOS

14m
SQUARE FEET UNDER LEASE

100,000+
CUSTOMERS

(a) Includes joint ventures, UK associate and franchises.

BERNARD CAREY, DIRECTOR
BMW
"We needed instant availability on flexible terms, a prestigious location and high quality offices that were in keeping with our own quality image. We looked at a number of buildings and providers, but nothing came close to the Regus proposition."

CONTENTS

AT ANY ONE MOMENT IN TIME, ALL KINDS OF BUSINESSES IN HUNDREDS OF LOCATIONS AROUND THE...

Chairman's Statement

These results reflect the excellent progress that has been made during 2004

The Group's profit before interest and tax excluding exceptional items, amortisation of goodwill and profit on sale of subsidiaries has increased by £29.9 million to £4.1 million (2003: £25.8 million loss).

Our results reflect the benefits of the restructuring programmes undertaken in Europe and the Americas and the continued focus on top line growth and cost control. Throughout 2004 we have seen continuous improvements in price and occupancy, which have culminated in a strong finish to the year. As a result we entered 2005 in a much stronger position than 12 months earlier.

I am also delighted to announce that Regus is now a FTSE 250 constituent company.

ACQUISITIONS

In August 2004 we consolidated our position in the USA with the acquisition of HQ Global Holdings Inc (HQ). The deal was financed through the combination of a Placing and Open Share Offer, which raised £119.0 million after expenses, and new debt facilities of £85.3 million ($155.0 million).

The integration of HQ is now substantially complete. We are very pleased to have achieved this well ahead of our original time-table of 18 months. As a result the costs of integration and any associated disruption have been minimised. In addition, the financial benefits we had previously estimated have started to accrue earlier. We achieved £10.3 million ($19.6 million) of annualised synergies in the period to 31 December 2004 and identified a further £1.9 million ($3.7 million) to be realised in 2005. This exceeds our original targeted synergies of at least $20.0 million by the end of 2005.

PARIS 13.00

+ 1 GMT

Activity:
MEMBERS OF AN INTERNATIONAL DRINKS COMPANY'S SALES FORCE ARE HOT-DESKING

Workplace solution:
HOT-DESKING

BILL OSBORNE, SENIOR ESTATE SURVEYOR IBM, EMEA

"We were rationalising our property portfolio in Glasgow and when we looked at the Regus proposition for flexible and cost effective office space, it was an easy decision to make to move our people into the Regus offices."

...WORLD ARE GOING ABOUT THEIR BUSINESS MORE EFFICIENTLY AND EFFECTIVELY THANKS TO THE

OVERVIEW OF RESULTS

I will outline our statutory results, in line with current accounting practice, before going on to discuss what we term underlying results, which serve to provide a clearer indication of Regus' year on year performance. The underlying results exclude exceptional items, amortisation of goodwill and profit on sale of subsidiaries which are considered one off or non-integral to the operating business.

Revenue for the period was £312.2 million compared with £256.6 million in 2003. The analysis of revenues and contribution by geographical segment is set out in the Operational and Financial Review. Loss before interest and tax was £6.5 million against a loss of £25.5 million in the previous year.

Underlying profit before interest and tax was £4.1 million against a loss of £25.8 million in 2003 while underlying earnings per share rose to 0.3p from a loss per share of 4.7p in the previous year.

At 31 December 2004, Regus had cash of £82.3 million and net funds of £4.9 million.

Setting aside the effect of the HQ acquisition and currency fluctuations, REVPAW, our key revenue statistic, increased by 14%. This was in part due to increases in occupancy together with a greater focus on Meeting Rooms and Virtual Offices, both reporting double digit growth over 2003.

We have become a cash generative Group realising £24.2 million in operating cash flow pre exceptional items compared with an £8.8 million operating cash outflow in 2003 as the impact of the Group's restructuring programme took effect. The acquisition of HQ will enable us to improve and maintain our strong cash flow.

There were a number of exceptional items, which gave rise to a net loss of £8.6 million before tax. These relate mainly to the costs of closing loss making centres and costs incurred in integrating the HQ business.

BOARD AND DIRECTORS

On 11 March 2005, Stephen East (47) was appointed to the Board as a non-executive director. Stephen was formerly Finance Director of MEPC plc. Prior to that he had run his own consultancy business and held senior positions with Redland PLC. He is a non-executive director of Star Energy Group plc. He has been appointed as a member of the Audit, Remuneration and Nomination Committees.

I would like to pay tribute to our Chief Executive, Mark Dixon for his inspirational leadership during the year. I would also like to thank our Group Finance Director, Rudy Lobo and our two non-executive directors, Roger Orf and Martin Robinson, for their immense contribution and hard work.

The Board is fully committed to achieving high standards of corporate governance and we are pleased to report good progress against the regulatory changes in this area.

OUR TEAM MEMBERS

At 31 December 2004 there were 2,521 employees in Regus. The ability of our team members to deal with difficult economic and trading conditions, undertake a major acquisition and integration and still keep a downward pressure on costs, is testament to all our staff and the corporate culture they promote. Our continued success is rooted in their ability to adapt, innovate and act.

OUTLOOK

The reorganisation of our business has created a platform for growth and improving profitability and, following an excellent fourth quarter last year and with HQ successfully integrated, we have strong momentum going into 2005. Our forward order book (excluding HQ) is some £10.0 million higher than the same period last year and we have seen a substantial rise in enquiry levels as well as a reduction of discounting for new sales. Costs remain firmly under control.

In the USA, our largest market, there is clear evidence of increasing activity levels and the outlook in Asia Pacific is similarly very positive. During 2005 we will look selectively to open new centres in both these regions to address rising demand. Although the outlook in Europe is less certain, we are making steady progress in our key countries and, where necessary, are addressing those centres trading below their potential.

We have invested substantially in the business over the past year, particularly in the acquisition of HQ, but also in our Meeting Room and Virtual Office businesses and we expect these to contribute significantly to our performance in the coming year. We will also continue to manage our property portfolio actively, taking advantage of lease renewals to realign our cost base and remove excess or unprofitable capacity.

With the current levels of occupancy and good pricing momentum into 2005, the Board is confident that Regus has a solid platform in place for strong growth in revenues, profits and cash during 2005.

JOHN MATTHEWS
CHAIRMAN
11 March 2005

CAPE TOWN 14.00

+ 2 GMT

Activity:
AN INTERNATIONAL MARKETING EXECUTIVE USES HER NETWORK ACCESS MEMBERSHIP TO STOP BY A REGUS OFFICE AND WORK FOR AN HOUR

Workplace solution:
NETWORK ACCESS

JOHN H DEGNAN, DIRECTOR
VIGNETTE CORPORATION

"The Network Access program is cost effective and ideal for our mobile workforce. Flexibility in locations, configurations, and the amount of time we need offices or conference rooms are of utmost importance for Vignette. This program acts as an extension of our own property portfolio."

WORKPLACE SOLUTIONS THE REGUS GROUP DELIVERS. THESE BUSINESSES ARE INCREASING THEIR...

Chief Executive's Review

Regus is the undisputed leader in the global office outsourcing market

OUR ACHIEVEMENTS
We set ourselves simple and clear targets at the start of the year:

- *To realign our cost base*
- *To be profitable*
- *To be cash generative.*

I am pleased to say that we have achieved these targets and this provides a solid platform as we move into 2005. Using our global footprint and flexible product offering to meet our customers' evolving needs within the office outsourcing market, we look to grow our business selectively in 2005.

OUR OBJECTIVES
Our objectives are to satisfy our shareholders' requirements for value growth and subsequent dividend payments. However this has to be balanced with our obligations to our customers, our employees and other stakeholders.

STRATEGY
We will continue to keep it simple – to benefit from our size and reach and to capitalise on growth in the office outsourcing market. We will achieve this through four key activities:

- *Focus on customers and deliver innovative products*
- *Continue to streamline costs and leverage systems*
- *Selective market growth*
- *Continued cash generation.*

FOCUS ON CUSTOMERS AND DELIVER INNOVATIVE PRODUCTS
Our strategy to drive sales and profits has concentrated on attracting new customers to the Regus model as well as furthering our business relationship with our existing customers. We will continue to develop in new markets and to roll out innovative products and product enhancements that support our customers' evolving workplace needs. Further, we will provide customers with a choice of locations, features and corresponding pricing through our brands. We continuously aim to create better value for customers, while reducing our costs to maintain or improve competitiveness.

Our overriding commitment is to provide our customers with a consistent and quality service that enhances their business performance.

CONTINUE TO STREAMLINE COSTS AND LEVERAGE SYSTEMS
We are focused on increasing the operating margin. We will further reduce our cost base through taking advantage of our scale and local knowledge in procuring goods and services. We will seek to withdraw capacity from any existing markets that are poorly performing or centres where our contracted rent is not sustainable in the long run. We continue to invest in systems to streamline operations, eliminate duplication and add more customer supporting resources.

SELECTIVE MARKET GROWTH
Our global coverage represents where our customers want us to be and our strong visible brand ensures the customer gets consistency and quality wherever they may be. We will continue to grow both organically and through acquisition to meet customer demand.

CONTINUED CASH GENERATION
Growth and profitability are important components to achieving sustainable cash flows. Cash generation is our prime objective and we expect to generate significant levels of cash flow in the future, allowing us to reinvest in the growth of the business to increase shareholder value.

DUBAI 16.00

+ 4 GMT

Activity:
CALLS ARE BEING TAKEN ON BEHALF OF A DESIGN COMPANY THAT HAS SET UP A VIRTUAL OFFICE AS A FIRST STEP TO CRACKING THE MIDDLE EASTERN MARKET

Workplace solution:
VIRTUAL OFFICE

MARK TAMBURRO, VP GLOBAL REAL ESTATE NOKIA
"Because of Regus' unrivalled global coverage they are a perfect partner for Nokia to use for our office outsourcing in both new and existing markets where we need flexible and cost effective solutions."

...FLEXIBILITY. THEY ARE SAVING TIME AND DECREASING COSTS. THEY ARE REDUCING THEIR BUSINESS

REGUS PEOPLE
The significant progress we have made in the year was made possible through the efforts of all our team members. I am delighted to welcome on board our new recruits, including those who have joined as a result of acquisitions, in particular our HQ team members.

IN CONCLUSION
We finished the year strongly. We have substantially completed our integration of HQ and have already contracted a significant proportion of the synergies. We have momentum that takes us into 2005 with confidence in delivering the required step up in performance.

I would like to extend my thanks to all of our customers, suppliers and investors for their continued support as we move to what are very exciting times.

MARK DIXON
CHIEF EXECUTIVE
11 March 2005

MARKET LEADER

THE ACQUISITION OF HQ, THE NUMBER ONE SUPPLIER OF OFFICE OUTSOURCING IN THE USA, HAS REINFORCED OUR POSITION AS THE ONLY GLOBAL OFFICE OUTSOURCING PROVIDER.

GLOBAL FOOTPRINT

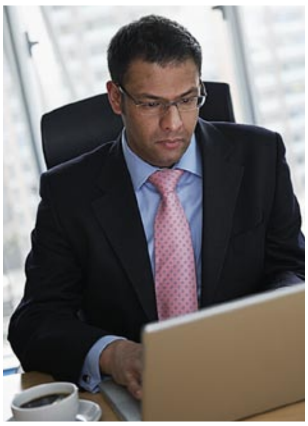
REGUS IS A GLOBAL ENTERPRISE WITH A LEADING PRESENCE IN THE NORTH AMERICAN MARKET. WE HAVE EXPANDED THE FOOTPRINT WITH NEW CENTRES IN SHANGHAI, SEOUL, MUMBAI AND A SPECIALISED CONFERENCE CENTRE IN SYDNEY. OUR FRANCHISE AND MANAGED CENTRE NETWORK HAS CONTINUED TO EXPAND WITH NEW CENTRE OPENINGS IN CYPRUS, GUATEMALA AND DUBAI.

OFFICE OUTSOURCING

THIS IS A FAST GROWING AREA AND WE HAVE REDEFINED THE TRADITIONAL REAL ESTATE MODEL TO ALLOW US TO EXPLOIT THIS OPPORTUNITY. WE HAVE MADE A START WITH SEVERAL LARGE CORPORATE WINS. IN FACT, MORE THAN 50% OF THE FORTUNE 500 HAVE OUTSOURCED SOME OF THEIR WORKPLACE REQUIREMENTS TO REGUS.

CUSTOMERS

WE HAVE EXPANDED OUR NETWORK AND PRODUCT OFFERING IN RESPONSE TO OUR CUSTOMERS' GROWING DEMAND FOR OFFICES AND MEETING ROOMS. OUR BUSINESS IS DRIVEN BY OUR CUSTOMERS AND WE CONTINUE TO PROVIDE CUSTOMERS WITH INCREASED REASONS FOR MAKING REGUS THEIR NUMBER ONE CHOICE. WE HAVE A 98% CUSTOMER SATISFACTION RATING AND NINE OUT OF TEN CUSTOMERS SAY WE PROVIDE GREAT VALUE FOR MONEY.



MUMBAI 17.30

+ 5.5 GMT

Activity:
A COMMERCIAL DIRECTOR IS CHECKING HIS EMAILS AT THE LOCAL BRANCH OFFICE BEFORE JETTING BACK TO HEADQUARTERS IN MELBOURNE

Workplace solution:
BRANCH OFFICE

LINDA S BERTONE, THE ABS GROUP
"Regus space gives us the flexibility to focus our resources on our customers and our products. We have great workspace without having to worry about our facilities. Our staff do a fair amount of global travel and we look forward to taking advantage of Regus services in their other US sites, as well as internationally."

RISK AND QUICKLY CAPITALIZING ON OPPORTUNITIES. THEY ARE GAINING ALL THE BENEFITS OF A...

Operational and Financial Review

With an increasingly diversified customer base, we look forward with confidence to 2005

OPERATIONAL REVIEW

The benefits of the changes put in place at Regus over the past two years have been evidenced by the improved results achieved in 2004. The thorough overhaul of our business undertaken in 2003 and the restructuring measures implemented thereafter have delivered a platform for growth in revenues, profits and cash generation. We enter 2005 with a record forward order book, customer satisfaction of 98% at an all time high, renewal levels improved by approximately 13% year on year and our costs firmly under control.

Last year saw a clear shift in our focus towards the USA where, following the successful acquisition and integration of HQ, we now generate approximately 60% of the Group's revenue. Reflecting this change in focus, Mark Dixon, relocated to the USA in 2003 to drive the development of the business and subsequently lead the integration of HQ. Against a continuing backdrop of favourable economic conditions, Regus is well placed to achieve further growth in the USA and will benefit from the dual branding that HQ brings to the market.

We have seen good growth in Asia Pacific in 2004 and we have opened new offices in Shanghai, Sydney and Seoul. Performance in Europe, however, has been slower and we have taken steps in The Netherlands and Germany to rationalise our portfolio, exiting under-performing centres where necessary.

We also invested significantly in our products last year and expect to see the benefits of this in 2005 and beyond. While workstation and related services comprise the majority of our revenues, our Meeting Room business has also been expanded, attracting major deals from both government and the private sector. We have also grown our Virtual Office business by applying dedicated resources. These businesses are experiencing high teen year on year growth and we expect both of them to contribute to like for like growth in revenue and profit this year.

There is an increasing trend among customers to outsource their business space and as the global leader in office outsourcing Regus is well placed to benefit from this trend. We have also seen similar growing demand from government departments who recognise the benefits of flexibility and ease of use that office outsourcing can bring.

Fourth Quarter, 2004

We delivered an excellent fourth quarter with revenues of £105.5 million (2003: £64.2 million) and EBITDA (pre exceptional items, joint ventures and associate) of £16.5 million (2003: £4.8 million).

Occupancy rose to 77% in the quarter and we saw improvement in pricing on both new sales and renewals over the corresponding period last year.

Year on year global enquiries, excluding HQ, in the fourth quarter have risen by 21% through more focused marketing activities. Our substantial investment in new media channels, such as search engine optimisation, has played a vital part in increasing enquiries, reducing cost per enquiry and improving return on investment.

KUALA LUMPUR 19.30

+ 7.5 GMT

Activity:
A FORTUNE 500 COMPANY HAS SPENT THE DAY TRAINING ITS REGIONAL SALES FORCE ON A NEW PRODUCT

Workplace solution:
TRAINING ROOM

77

OCCUPANCY ROSE TO 77% IN THE FOURTH QUARTER

...HIGH QUALITY WORKPLACE WITHOUT THE UP-FRONT CAPITAL EXPENDITURE, DAY-TO-DAY ADMIN

FINANCIAL HIGHLIGHTS

FINANCIAL RESULTS

	Group £m	Acquisitions (a) £m	2004 Regus £m	2003 Regus £m	Change £m
Turnover	312.2	55.8	256.4	256.6	+55.6
Centre contribution	44.6	11.0	33.6	16.9	+27.7
Group operating (loss)/profit	(3.3)	3.3	(6.6)	(28.2)	+24.9
(Loss)/profit before interest and tax	(6.5)	3.3	(9.8)	(25.5)	+19.0
Adjusted profit/(loss) before interest and tax (b)	4.1	6.3	(2.2)	(25.8)	+29.9
	p	p	p	p	p
Loss per share	(0.6)			(4.7)	+4.1
Adjusted earnings/(loss) per share	0.3			(4.7)	+5.0
	£	£	£	£	£
REVPAW	5,252	5,938	5,117	4,614	+638

(a) Acquisitions include HQ (USA) from 20 August 2004 and Interlink Business Plaza (Korea) from 6 August 2004.
(b) Adjusted profit before interest and tax is stated before charging exceptional items of £8.6 million (2003: £6.4 million); amortisation of goodwill of £2.0 million (2003: £nil) and profit on sale of subsidiaries of £0.1 million (2003: £6.6 million).

SEGMENTAL ANALYSIS

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. The table also shows the split between Regus and HQ performance.

	2004 Revenue £m	2004 Centre contribution £m	2004 Available workstations	2003 Revenue £m	2003 Centre contribution £m	2003 Available workstations
Americas						
Regus	79.0	4.8	18,238	80.2	(4.1)	20,525
HQ	55.7	11.0	9,347	–	–	–
Americas	134.7	15.8	27,585	80.2	(4.1)	20,525
EMEA (a)	149.6	27.4	27,431	148.4	13.8	30,831
Asia Pacific	25.2	5.3	4,435	24.2	3.4	4,262
	309.5	48.5	59,451	252.8	13.1	55,618
UK fee (b)	2.7	2.7	–	3.8	3.8	–
Group	312.2	51.2	59,451	256.6	16.9	55,618

(a) EMEA represents Europe (excluding UK), Middle East and Africa.
(b) UK fee is management income for services provided to the UK associate.

SHANGHAI 20.00

+ 8 GMT

Activity:
A SALES TEAM IS FINISHING ITS FIRST DAY IN ITS NEW OFFICE – THE DECISION TO SET THE OFFICE UP WAS TAKEN LESS THAN 48 HOURS AGO

Workplace solution:
SALES OFFICE

DISTRACTIONS AND RESTRICTIVE TIES TRADITIONALLY ASSOCIATED WITH IT. WHETHER THEY NEED A...

Operational and Financial Review
continued

FINANCIAL REVIEW

Workstations

The Group has seen a significant improvement in workstation utilisation in 2004 with average occupancy for the year improving to 75% (2003: 63%). This has been achieved through a combination of capacity reductions (10% reduction in inventory) and a 6% increase in the number of occupied workstations on a like for like basis excluding the impact of HQ. Workstation occupancy of the existing Regus USA business increased to 82% (2003: 66%). HQ has operated at 80% occupancy since acquisition. New sale and renewal prices grew 14% and 3% respectively on the average of 2003.

Revenue

Revenue of £312.2 million (2003: £256.6 million) was 22% above last year, principally due to the acquisition of HQ, which was completed in August 2004. Our reported results (excluding the impact of HQ) were affected by the weakening US dollar and the reduction of inventory by approximately 5,000 less available workstations in the year. Compared to 2003, sterling has appreciated by 12% against the US dollar. At constant rates, Regus revenues for the year increased by 5%.

Revenue for the Americas was £54.5 million higher than last year due to the acquisition of HQ. Setting aside the effect of the acquisition, underlying revenues at constant currency increased by 8%. Strong economic activity coupled with the economic benefits of integrating our back office and sales force has improved operational performance and profitability.

EMEA revenue of £149.6 million (2003: £148.4 million) was achieved despite a 11% capacity reduction in the region. Underlying revenues at constant currency increased by 3%. We have continued to optimise our inventory base in this region by addressing those centres trading below their potential. As discussed in our December trading update, additional plans are in place to improve profitability in this region, particularly in The Netherlands and Germany, through the removal of excess capacity and continued restructuring of our cost base.

Asia Pacific revenues of £25.2 million were £1.0 million (4%) higher than last year (2003: £24.2 million). New centre openings generated £0.7 million of revenue in the year, while currency had an adverse impact of £1.5 million. Underlying revenues increased by 10% on a constant currency basis.

Centre contribution

Centre contribution pre exceptional items increased by £34.3 million to £51.2 million (2003: £16.9 million). This represents a centre contribution margin of 16% (2003: 7%). After exceptional costs of £6.6 million, centre contribution was £44.6 million. The improvement in centre contribution has been driven by a combination of increasing local revenues on reduced inventory and a lower cost base, which has benefited from operational improvements and cost control programmes.

The Americas region accounted for £15.8 million of the £51.2 million, with HQ contributing £11.0 million in the four months since acquisition. The restructuring of Regus' operations in the USA started in 2003 is now largely completed.

Centre contribution in EMEA increased from £13.8 million to £27.4 million, representing a margin of 18% of turnover (2003: 9%). This improvement was principally realised through a re-alignment of the cost base and better market conditions.

Centre contribution in Asia Pacific increased by 56% to £5.3 million. When compared with 2003, centre costs (excluding HQ) were reduced by £23.5 million or 10% to £216.0 million (2003: £239.7 million). More importantly we have reduced costs without sacrificing the quality of our customer service.

Administration expenses and exceptional items

Administration expenses of £43.9 million were 4% down on 2003 even after including HQ administration expenses of £4.6 million and adjusting for the effect of £2.1 million one off items benefiting 2003.

Results for the year include exceptional items of £8.6 million. Centre contribution includes a charge of £6.6 million relating to an onerous contract provision of £3.4 million and a fixed asset impairment of £3.2 million. Administration expenses include an exceptional charge of £2.0 million comprising HQ integration costs of £2.5 million, severance costs of £0.3 million, offset by the release of prior year restructuring provisions of £0.8 million.

Goodwill amortisation

Goodwill amortisation of £2.0 million was charged during the period (2003: £nil) and largely relates to the goodwill arising on the acquisition of HQ. Goodwill is being amortised over 20 years.

Brand amortisation

The HQ brand name was valued at £36.8 million on the date of acquisition. The brand is being amortised over 20 years. A charge of £0.7 million is included within operating profit.

Share of operating loss in joint ventures and associate

In the year ended 31 December 2004, the share of joint venture losses attributable to Regus was £0.7 million (2003: £0.2 million).

SYDNEY 22.00

+ 10 GMT

Activity:
TRADERS ARE VIDEO-CONFERENCING WITH COLLEAGUES IN THEIR BOSTON REGUS OFFICE

Workplace solution:
VIDEOCONFERENCING

...MEETING ROOM FOR AN HOUR OR A NETWORK OF OFFICES AROUND THE WORLD – THESE BUSINESSES

Our UK associate reported a £6.4 million operating loss (2003: £8.8 million operating loss) in the 12 month period ended 31 December 2004. Our 42% share holding resulted in a £2.7 million loss (2003: £3.7 million loss) being charged to our Group profit and loss account.

Net interest payable and similar charges

Net interest payable decreased from £4.4 million to £2.2 million. Interest payable on bank loans and overdrafts increased by £1.0 million as a result of the additional $110.0 million debt taken on to finance the HQ acquisition. Finance lease interest reduced by £2.9 million due to the expiry of primary leases and inception of secondary lease terms during the year. Interest receivable of £1.4 million (2003: £0.8 million) reflects increased average free cash balances of £40.0 million in 2004 against £16.0 million in 2003.

Taxation

The tax credit for the year of £2.9 million, (2003: £2.1 million) includes £3.8 million (2003: £1.5 million) credit arising from the recognition of a deferred tax asset on prior year losses, short term timing differences and accelerated capital allowances offset by a £0.9 million corporation tax charge (2003: £0.6 million corporation tax credit).

Adjusted profit and earnings per share pre exceptional items and amortisation of goodwill

Profit before interest and tax, adjusted for exceptional items, amortisation of goodwill and profit on sale of subsidiaries was £4.1 million, a £29.9 million improvement on the prior year. This was achieved through a £23.5 million reduction in centre costs and an HQ contribution of £6.4 million.

Adjusted earnings per share were 0.3p (2003: 4.7p loss per share).

SAN FRANCISCO 04.00

– 8 GMT

Activity:
A HI-TECH START-UP IS BURNING THE MIDNIGHT OIL, YET AGAIN

Workplace solution:
START-UP OFFICE

312.2

REVENUE OF £312.2m WAS 22% ABOVE LAST YEAR

ARE GETTING UP AND RUNNING AND DOWN TO BUSINESS WITH INCREASED EFFICIENCY. NO WONDER...

Operational and Financial Review continued

Acquisition of HQ

In August 2004 we consolidated our position as the number one supplier of office outsourcing in the USA with the acquisition of HQ for £173.5 million financed through new debt facilities and a Placing and Open Share Offer to raise £119.0 million, net of expenses.

The integration of HQ is substantially complete and we are very pleased to have achieved this well ahead of our original timetable of 18 months. As a result the costs of integration and any associated disruption have been minimised. In addition the financial benefits we had previously estimated have started to accrue earlier. We achieved £10.3 million ($19.6 million) of annualised synergies in the period to 31 December 2004. This compares favourably against our original target of synergies of at least $20.0 million by the end of 2005. Our synergies have come mainly from headcount reduction ($11.3 million), procurement savings ($5.2 million), elimination of cost duplication ($2.4 million) and other savings of $0.7 million. Headcount reduction involved the loss of 69 corporate employees and 45 centre staff.

Our increased capacity has allowed us to strengthen our purchasing power and leverage better deals with suppliers. 70% of the $5.2 million procurement savings have been achieved through renegotiating contracts with telecom and courier providers. Elimination of costs ($2.4 million) has been realised through consolidating insurance policies, brokers and financing arrangements. The removal of management fees and directors' fees incurred by HQ as a standalone operation accounted for $0.8 million of the $2.4 million cost eliminations. Other savings amounting to $4.4 million (of which $3.7 million is to be delivered in 2005) encompass further headcount reductions and savings arising from property negotiations.

Overall, the integration costs incurred during the year were £2.5 million. We expect to incur a further £3.5 million ($7.0 million) in 2005 against a total original estimate of £8.0 million ($15.0 million).

Since acquisition, HQ has generated revenues of £55.7 million and an underlying profit pre exceptional items and amortisation of goodwill of £6.4 million. Total revenues of HQ in 2004 were £153.5 million (translated at an average rate for the period). In addition to the cost synergies above we have benefited from cross-selling opportunities as evidenced by contract wins with American Express, NASA and American Home Mortgage.

We now have the two leading brands in the industry in the USA – working effectively together to offer more choice for the customer and attract more new customers to our portfolio.

International Financial Reporting Standards

For the period commencing 1 January 2005, Regus will report its financial results in accordance with International Financial Reporting Standards (IFRS). The transition date for adoption of IFRS is determined in accordance with IFRS 1, First time Adoption of International Financial Reporting Standards, and has been determined as 1 January 2004. The consolidated results of Regus converted from a UK Generally Accepted Accounting Principles (UK GAAP) basis onto an IFRS basis for the year ended 31 December 2004, together with an explanation of the adjustments, will be presented in a separate announcement before the issuance of our interim results.

Balance sheet

Liquidity and capital resources

Cash at bank and in hand at 31 December 2004 was £82.3 million (December 2003: £85.0 million) of which £50.1 million (December 2003: £64.1 million) was free cash.

Indebtedness (excluding finance leases) at 31 December 2004 was £64.1 million (December 2003: £9.2 million). The Group had outstanding finance lease obligations of £13.2 million (December 2003: £17.6 million), of which £7.3 million is due within one year.

Excluding exceptional payments of £31.1 million, the cash inflow from operating activities in the year ended 31 December 2004 was £24.2 million. Net cash outflow before management of liquid resources and financing was £177.7 million after paying £163.0 million on acquisitions (net of cash acquired), tax of £1.6 million, net capital expenditure of £4.7 million and net interest of £1.6 million. During the year 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 2003 Rights Issue proceeds received in January 2004.

The acquisition of HQ was funded by a Placing and Open Offer raising £119.0 million and new debt facilities of £85.3 million ($155.0 million).

Treasury management and currency risk

The Group is financed through working capital and a $155m senior credit facility, which was entered into in August 2004, and amortises between now and August 2010. The Group was in compliance with the covenant conditions of the senior credit facility throughout the period. At 31 December 2004, $25m of this facility was undrawn and available until August 2008. The Group seeks to maintain comfortable headroom on committed facilities at all times

NEW YORK 07.00

– 5 GMT

Activity:
AN INVESTMENT BANK IS BEGINNING ITS FIRST ROUND OF GRADUATE RECRUITMENT INTERVIEWS

Workplace solution:
INTERVIEW ROOM

MALU MALDONADO, FINANCE DEPUTY VP CADBURY BEDIDAS

"The truth is that I've had the best experiences with Regus. You have a very professional team and the service is excellent. I feel very secure and confident renting meeting rooms with you because I know everything will run smoothly."

...OVER HALF OF THE FORTUNE 500 AND THOUSANDS OF OTHER COMPANIES, FROM START-UPS TO

and all future contractual commitments can be covered by the existing facilities.

Both the Group's cash and debt is kept at short term floating interest rates because due to the current cash flow generation of the business, the debt is deemed non-core and earlier repayment is probable.

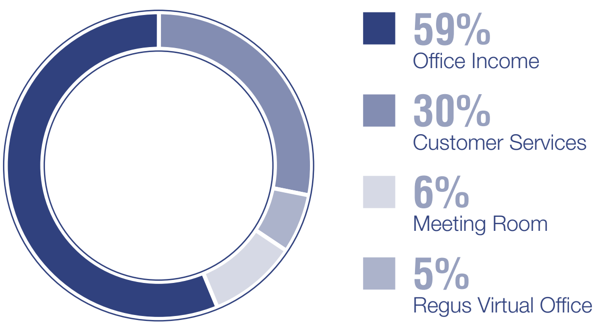
Funding of our subsidiaries is arranged and monitored centrally. All cross-border funding is provided on an arm's length basis. Balance sheet translational risk is not specifically hedged against adverse movements in exchange rates and the results of any such movements are taken to reserves. The majority of the Group's net assets are in US dollars and euros, and the Group limits the translation exposure and resulting impact on shareholders' funds by borrowing in US dollars. The Group does not hedge the translation effect of exchange rate movements on the profit and loss account.

The Group's exposure to currency risk at a transactional level is mitigated as the majority of transactions of overseas subsidiaries are carried out in local currency.

The Group does not trade or speculate in any financial instruments. In addition to treasury policies approved by the Board, a Treasury Risk Committee meets quarterly to review the management and exposure of the Group to funding, liquidity, foreign exchange and interest rate risk.

RUDY LOBO
GROUP FINANCE DIRECTOR

REVENUE 2004



82

WORKSTATION OCCUPANCY OF THE EXISTING REGUS USA BUSINESS INCREASED TO 82%

ESTABLISHED ENTERPRISES, HAVE OUTSOURCED THEIR WORKPLACE REQUIREMENTS TO REGUS.

Directors






JOHN MATTHEWS
CHAIRMAN

John (60) joined Regus in 1995 as a non-executive director and was appointed Chairman in July 2002. He is currently Chairman of Crest Nicholson plc and an independent director of Center Parcs (UK) Group plc, Diploma plc, Rotork plc and SDL plc. A Chartered Accountant, he was previously Managing Director of County Natwest and Deputy Chairman as well as Deputy Chief Executive of Beazer plc, the international aggregates, construction and housing group. John is Chairman of the Nomination Committee.

MARK DIXON
CHIEF EXECUTIVE

Chief Executive and Founder, Mark (45) is one of Europe’s best-known entrepreneurs. Since founding Regus in Brussels in 1989, he has achieved a formidable reputation for leadership and innovation. Prior to Regus he established businesses in the retail and wholesale food industry. Recipient of two major awards for enterprise, Mark’s vision of the future of work has revolutionised the way business approaches its property needs.

RUDY LOBO
GROUP FINANCE DIRECTOR

Rudy (49) joined Regus in 1992 as Group Finance Director and re-assumed the role in October 2003. In addition to this role, he is responsible for commercial operations, human resources and for directing Regus’ IT and e-business strategy. Rudy is also a director and Trustee of the charity Great Causes Ltd. Previously, Rudy was Group Company Secretary of Medicom International Ltd, a publisher of medical journals. Rudy is a Certified Accountant.

MARTIN ROBINSON
INDEPENDENT NON-EXECUTIVE DIRECTOR

Martin (42) joined the Board of Regus in August 2002 and is Chairman of the Remuneration Committee. He is currently the Chairman of Center Parcs (UK). He was Chairman of the Board of Management of Center Parcs Europe until August 2004. Martin is also a Director of the Supervisory Board of EuroDisney SCA. He has held senior management positions with Scottish and Newcastle plc and Sara Lee Corporation and worked as a Management Consultant for four years with McKinsey & Co Inc.

ROGER ORF
INDEPENDENT SENIOR NON-EXECUTIVE DIRECTOR

Roger (52) is Head of European Property Investments for Citigroup. He was formerly Head of European Operations for Lone Star, a property investment company. Prior to this, Roger made investments for his own account, managed investments on behalf of Apollo Real Estate Advisors and was in charge of Goldman Sachs European real estate department. He was appointed a non-executive director of Regus in 1998 and he is Chairman of the Audit Committee.

STEPHEN EAST
INDEPENDENT NON-EXECUTIVE DIRECTOR

On 11 March 2005, Stephen East (47) was appointed to the Board as a non-executive director. Stephen was formerly Finance Director of MEPC plc. Prior to that he had run his own consultancy business and held senior positions with Redland PLC. He is a non-executive director of Star Energy Group plc. He has been appointed as a member of the Audit, Remuneration and Nomination Committees. Stephen is a Chartered Accountant and Vice President of the Association of Corporate Treasurers.

Directors' Report

The directors present their report and the audited financial statements of Regus Group plc for the year ended 31 December 2004.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Group is the world's leading supplier of global office outsourcing solutions. The Group's trading results are set out in the financial statements on pages 26 to 29. Details of the Group's future prospects and review of operations are described in the Chairman's Statement, Chief Executive's Review and Operational and Financial Review on pages 2 to 11.

RESULTS AND DIVIDENDS

Loss for the year before tax was £8.7 million (2003: £29.9 million loss), which after adding back exceptional items of £8.6 million (2003: £6.4 million) and amortisation of goodwill of £2.0 million (2003: £nil) amounted to a profit of £1.9 million (2003: £23.5 million loss).

The directors do not recommend the payment of a dividend.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office since the last Annual Report were:

Executive directors

Mark Dixon
Rudy Lobo

Non-executive directors

John Matthews
Roger Orf
Martin Robinson
Stephen East (Appointed 11 March 2005)

Biographical details for all current directors are shown opposite.

Details of the directors' interests and shareholdings are given in the Remuneration Report on pages 19 to 23.

CORPORATE AND SOCIAL RESPONSIBILITY

The Board recognises its responsibilities in respect of social, environmental and ethical (SEE) matters. The directors continually monitor risks to its businesses, including SEE risks, which may impact the Group's short and long term value. During 2004 no significant risks were identified.

PEOPLE AND CULTURE

Employee involvement

It is the Group's policy to communicate with all employees and to encourage employees to contribute to the management of the business. Communication with employees is carried out through the Company's intranet, employee newsletters, briefing meetings conducted by senior management and formal and informal discussions. Interim and Annual Reports are available to all staff. Informal communication is further facilitated by the Group's regional organisational structure.

The workplace

Empowered employees are key to delivering value for the organisation. Clear accountabilities have been established and reward strategies have been aligned with financial and non-financial performance measures. In our centres we operate flexible working practices which give us the edge in retaining experienced and well trained staff and allows us to align our team members' hours to the evolving needs of the business and our customer requirements.

Equal opportunity

The Group endorses and supports the principal of equal employment opportunity. It is the policy of the Group to provide equal employment opportunity to all qualified individuals which ensures that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis. Due consideration is given to the recruitment, promotion, training and working environment of all staff including those with disabilities. It is the Group's policy to encourage the training and further development of all its employees where this is of benefit to the individual and to the Group.

HEALTH AND SAFETY

The Board recognises the importance of maintaining high standards of health and safety. This means taking all reasonable and practicable steps to safeguard the health, safety and welfare of our employees, customers, visitors and other persons who may be affected by our activities. The effective management of health and safety is a legal issue and it is also business critical as it effects reputation, investor confidence, supplier relationships, staff morale and overall profitability.

In order to meet these responsibilities the Group:

- *Assesses the risks to health and safety*
- *Implements safe systems at work*
- *Provides information, instruction and training*
- *Establishes and maintain emergency procedures*
- *Regularly reviews health and safety policies and procedures.*

We are proactive in our approach to health and safety by monitoring proposed changes in legislation and implementing policies accordingly.

THE ENVIRONMENT

The Group does not operate in a business sector which causes significant pollution but the Board recognises that the business does have an impact on the environment. The Board is committed to managing and improving the ways in which our activities affect the environment by:

- *Optimising the use of energy – with nearly 700 locations it is important that we continually identify ways to improve energy efficiency across all our operations. We have implemented certain initiatives to reduce our energy use. These include, among others, resetting boiler controls, amending time settings for air conditioning and using timing switches for hot water supply.*

- *Encouraging the re-use and recycling of paper and toner cartridges, mixed office paper, packaging, bottles, aluminium cans and plastic cups.*

POLITICAL AND CHARITABLE DONATIONS

The Group made no charitable donations during the year (2003: £nil). It is the Group's policy not to make political donations either in the UK or overseas.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group does not follow a universal code dealing specifically with payments to suppliers but, where appropriate, our practice is to:

- *Agree the terms of payment upfront with the supplier*
- *Ensure that suppliers are made aware of these terms of payment*
- *Pay in accordance with contractual and other legal obligations.*

At 31 December 2004, the number of creditor days outstanding for the Group was 35 days (2003: 37 days) and the Company, nil days (2003: nil days).

Directors' Report
continued

GOING CONCERN

The directors, having made appropriate enquiries, have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Accounts on pages 26 to 48.

SUBSTANTIAL INTERESTS

As at 11 March 2005, the Company has been notified of the following interests held in more than 3% of the issued share capital of the Company.

Holder	Number of Ordinary Shares	% of issued share capital
Paramount Nominees Ltd [a]	366,329,286	37.20
Artemis Investment Managers	81,267,251	8.25
Cantor Fitzgerald Europe	80,184,196	8.14
M&G Investment Management	53,295,462	5.41
Man Financial	52,400,721	5.32
Merrill Lynch Investment Managers (UK)	52,126,157	5.29

(a) The beneficiary is Maxon Investments BV. Mark Dixon owns the 100% interest in Maxon.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting (AGM).

On behalf of the Board

TIM REGAN
COMPANY SECRETARY
11 March 2005

Corporate Governance

The Board is committed to high standards of corporate governance and has applied the principles of corporate governance recommended in Section 1 of the new Combined Code published in July 2003 (the new Combined Code) and applicable to all reporting periods beginning after 1 November 2003. This Annual Report for the year ended 31 December 2004 refers to the Company's compliance with the new Combined Code.

The Board has adopted the 'comply or explain' approach reinforced by Higgs confirming that either the Company complied with recommendations or provides an explanation for non-compliance.

COMPLIANCE WITH THE NEW COMBINED CODE

The Company has complied with the provisions set out in section 1 of the new Combined Code published in July 2003 throughout the year ended 31 December 2004, with the exception of the following:

- *Provision B.1.1 – Prior to the admission to the Official List of the UK Listing Authority, share options were granted to Rudy Lobo (by Maxon Investments BV, rather than the Company) without performance criteria attached to them. None of these options remain outstanding. All options granted since 2000 have had performance conditions attached. The Group will not grant further options to employees without attaching performance criteria to their exercise;*

- *Provisions B.2.1 and C.3.1 – During 2004, the Remuneration and Audit Committees did not comprise wholly independent non-executive directors, although the Board satisfied itself that the directors who were members of these Committees were those who were best able to contribute to its objectives. Subsequently, Stephen East was appointed to each of these Committees and John Matthews resigned from them. These Committees now comprise wholly independent non-executive directors;*

- *Provision D.1.1 – The senior independent non-executive director, Roger Orf does not have regular meetings with major external shareholders. However he is available to meet them as requested.*

BOARD OF DIRECTORS

As at 31 December 2004, the Board comprised three non-executive directors, including the Chairman, and two executive directors, as set out on page 12 of this report.

On 11 March 2005, Stephen East (47) was appointed to the Board as a non-executive director. He has been appointed as a member of the Audit, Remuneration and Nomination Committees.

The roles of Chairman (John Matthews) and Chief Executive (Mark Dixon) are separated and clearly defined. Roger Orf is the senior independent non-executive director. The Company regards Roger Orf, Martin Robinson and Stephen East as independent non-executive directors.

Regus' Board considers that its primary role is to provide leadership and to develop a coherent long term strategy for the Group. Its other roles are to supervise the management, to maintain control over the Group's assets and to establish high ethical standards of behaviour, together with developing robust corporate governance and risk management procedures.

Matters reserved for the Board are considered by the Board as a whole and no one individual has unrestricted powers of decision. There are well documented procedures and controls, including a schedule of matters that require the Board's specific approval. This provides the framework for decisions to be taken by the Board and those that are delegated to Committees of the Board. All capital expenditure projects over £1.0 million require Board approval. Further details on internal control are given on pages 17 and 18.

The various Board Committees have authority to make decisions in their areas of expertise. The full terms of reference of the Audit, Nomination and Remuneration Committees can be found on www.regus.com.

There were six scheduled Board meetings during 2004 and ten additional meetings to consider matters which were time critical and not appropriate to be dealt with by way of written resolution. All directors in office at the date of the scheduled meetings were present. In advance of each meeting, the Chairman and Company Secretary ensure that financial and operating information of the Group's current performance, as well as information on any other matter, is distributed to the Board.

The names of the members of the Board Committees are given on page 16, together with the number of meetings held during the year.

The Chairman participates in investor meetings and makes himself available for questions, in person, at the time of major announcements. This direct contact, together with feedback from management and from the Company's two in-house brokers (Dresdner Kleinwort Wasserstein and KBC Peel Hunt), is used to brief the Board. The Board considers it appropriate for the Chairman to be the main conduit with investors, rather than the senior independent non-executive director. The Chairman regularly updates the Board and particularly the senior independent non-executive director on the results of his meetings and the opinions of investors. On this basis, Regus considers that the senior independent non-executive director is able to gain full awareness of the issues and concerns of major shareholders. Notwithstanding this policy, all directors have a standing invitation to participate in meetings with investors.

The Chairman confers with other non-executive directors on a regular basis, without the executive directors present.

All directors, both executive and non-executive, are encouraged to request inclusion of any unresolved concerns that they may have in the Board minutes.

The Company Secretary is responsible to the Board for ensuring compliance with Board procedures.

The Group's insurance programme is reviewed annually and appropriate insurance cover is obtained to protect the directors and senior management in the event of a claim being brought against any of them in their capacity as directors and officers of the Company.

CHAIRMAN AND CHIEF EXECUTIVE

Regus has a part-time Chairman and a full-time Chief Executive. There is a clear division of responsibility between the positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for running the Group's business.

John Matthews spends one day per week in his role as Chairman. He is also Chairman of Crest Nicholson plc and an independent director of SDL plc, Rotork plc, Diploma plc and Center Parcs (UK) Group plc. Mark Dixon is Chief Executive. Details of other Directorships held by members of the Board are given on page 12.

Corporate Governance continued

BOARD BALANCE AND INDEPENDENCE
The Board works as a team but independence of thought and approach are encouraged. The present Board is made up of two executive directors and four non-executive directors (three of which are independent). A biography of each director is shown on page 12.

APPOINTMENTS TO THE BOARD
The Nomination Committee proposes Board nominations, which are then considered and approved by the full Board. Membership of the Nomination Committee is shown below and consists of four non-executive directors (three of which are independent).

TRAINING AND PROFESSIONAL DEVELOPMENT
Appropriate training is made available for all new directors to assist them in the discharge of their responsibilities. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures, corporate governance and regulatory compliance are followed and complied with. Should a director request independent professional advice to carry out his duties, such advice is available to him at the Company's expense.

PERFORMANCE EVALUATION
During 2004, the Board evaluated the terms of reference, membership and responsibilities of its individual Board Committees and will continue to do so on an annual basis.

In line with the new Combined Code a formal annual performance evaluation has been conducted in respect of the Board, its Committees and individual directors. The Chairman is responsible for ensuring appropriate actions are taken as a result of this appraisal. The senior independent non-executive director is responsible for appraisal of the Chairman's performance.

RE-ELECTION OF THE BOARD
All directors submit themselves for re-election by shareholders at least every three years and directors appointed during the period are required to seek re-election at the next AGM.

Non-executive directors are subject to the re-election requirements and serve the Company under letters of appointment, which have an initial three year term.

BOARD COMMITTEES AND TERMS OF REFERENCE
In addition to regular scheduled Board meetings the Company operates through various Board Committees. The Committees and their main terms of reference are set out below:

Audit Committee
Roger Orf *Chairman*
John Matthews (Resigned 11 March 2005)
Martin Robinson
Stephen East (Appointed 11 March 2005)

The terms of reference of the Audit Committee have been documented and agreed by the Board. The full text of the terms of reference are available on the Company's website, www.regus.com. The key terms set out that the Audit Committee will:

- *Monitor the integrity of the financial statements of the Group, including its Annual and Interim Reports, preliminary results' announcements and any other formal announcement relating to its financial performance.*

- *Keep under review the effectiveness of the Group's internal controls and risk management systems.*

- *Monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system.*

- *Oversee the relationship with the external auditor including (but not limited to) approval of their remuneration, approval of their terms of engagement, assessing annually their independence and objectivity.*

The Committee met three times in 2004 and all members were present. It is recognised that the membership of the Committee did not comply with the recommendations of the new Combined Code as John Matthews is not deemed to be an independent non-executive director. However, John's financial experience was relevant and valuable to discussions. On 11 March 2005, Stephen East, an independent non-executive director, was appointed to the Committee and John Matthews resigned from it. Thus the Committee is now compliant with the recommendations of the new Combined Code.

Nomination Committee
John Matthews *Chairman*
Martin Robinson
Roger Orf
Stephen East (Appointed 11 March 2005)

The terms of reference of the Nomination Committee have been documented and agreed by the Board. The full text of the terms of reference are available on the Company's website, www.regus.com. The main terms of reference of this Committee are to regularly review the structure, size and composition of the Board and make recommendations to the Board on the role and nomination of directors for appointment to the Board, Board Committees and holders of any executive office. The Committee is also responsible for assessing the role of Chairman and making appropriate recommendations to the Board, and assisting the Chairman with the annual performance evaluation to assess the overall and individual performance and effectiveness of the Board. The Committee met twice in 2004 and all members were present.

Remuneration Committee
Martin Robinson *Chairman*
John Matthews (Resigned 11 March 2005)
Roger Orf
Stephen East (Appointed 11 March 2005)

The main terms of reference of this Committee are set out in the Remuneration Report on page 19. There were five scheduled meetings during 2004 and three additional meetings to allot shares under the Company's share option scheme. All members were present at the scheduled meetings.

Attendance at meetings
The number of meetings of the Board and Committees and individual attendance by the directors are shown below.

	Main Board	Audit Committee	Remuneration Committee	Nomination Committee
Total meetings	**16**	**3**	**8**	**2**
Executive				
Mark Dixon	14	N/A	N/A	N/A
Rudy Lobo	16	N/A	N/A	N/A
Non-executive				
John Matthews	13	3	8	2
Roger Orf	11	3	5	2
Martin Robinson	9	3	8	2

Audit Committee and Auditors

The Board has delegated the responsibility for applying an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under law and the new Combined Code, and managing the relationship with the Company's external auditors to the Audit Committee. The Committee consists entirely of non-executive directors.

The Audit Committee meets at least three times a year with representatives of the external auditors. At the request of the Chairman, the Group Finance Director, the Company Secretary and the Head of Internal Audit attend each meeting.

The Committee advises the Board on the appointment, re-appointment, removal and remuneration of external auditors. KPMG Audit Plc were the Company's auditors for the year ended 31 December 2004. For 2005, the Committee has recommended to the Board that a resolution to re-appoint KPMG Audit Plc as the Company's auditors be proposed at the Annual General Meeting 2005. The Committee will continue to keep under review the independence and objectivity of the external auditors, the effectiveness of the audit process and the rotation of the lead audit partner.

The Committee also meets independently with the Company's auditors and with the Head of Internal Audit to informally discuss matters of interest.

The scope and extent of non-audit work undertaken by the Company's auditor is monitored by and, above certain thresholds, requires prior approval from the Committee to ensure that the provision of non-audit services does not impair their independence or objectivity. The Company's auditor is prohibited from providing services that would be considered to jeopardise their independence such as book keeping services, valuations and system design.

Internal control

The Board has ultimate responsibility for the system of internal control operating throughout the Group and for reviewing its effectiveness.

No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

The Company has had procedures in place throughout the year and up to 11 March 2005 the date of approval of this Annual Report which accord with the Internal Control Guidance for directors on the new Combined Code.

The Board conducts regular reviews of the Group's strategic direction. Country and regional strategic objectives, quarterly plans and performance targets for 2005 have been set by the executive directors and are regularly reviewed by the main Board in the context of the Group's overall objectives.

The control framework and key procedures, which were in place throughout the year ended 31 December 2004, comprise the following:

- *The Board normally meets every six months together with certain other senior executives to consider Group financial performance, business development and Group management issues. The directors and officers of Group subsidiaries comprise executives with appropriate functional responsibilities. Executives of key operating companies meet regularly to manage their respective businesses.*

- *The Board establishes corporate strategy and Group business objectives. Regional management must integrate such objectives into regional business strategies for presentation to the Board with supporting financial objectives.*

- *There is an ongoing process for identifying, evaluating and managing the risks faced by the Group. Major business risks and their financial implications are appraised by the responsible executives as a part of the budget process and these are endorsed by regional management. Key risks are reported to the Board and the Audit Committee. The appropriateness of controls is considered by the executives, having regard to cost/benefit, materiality and the likelihood of risks crystallising. Key risks and actions to mitigate those risks are regularly considered by the Board and are formally reviewed and approved by the Board annually.*

- *Country and regional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators, are reviewed by the Group executive and must support regional business strategies. The consolidated Group budget is approved by the Board.*

- *Operational and financial reports are prepared and distributed to the Board on a monthly basis. Actual results are reviewed against budget and forecast and explanations are received for all material movements. The senior management team are integrally involved in the business and to this extent regularly discuss and address issues and opportunities with regional and functional teams. Formal business review meetings, chaired by Mark Dixon, are held with the regional teams and functional heads on a monthly basis.*

- *There is a Group-wide policy governing appraisal and approval of investment and capital expenditure and asset disposals.*

- *Key policies and control procedures (including finance, operations, and health and safety) are documented in manuals having Group-wide application. These are available to all staff on the Group's intranet system.*

- *The Group's internal audit remit is to report to the Audit Committee on the Group's worldwide operations. Its resourcing programme of work and findings, including any material control issues and resultant actions, are reviewed by the Audit Committee.*

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

The following key mechanisms were available to the Board at various times during the year in the conduct of its review of internal controls:

- *An ongoing process, through Board meetings, senior management meetings and divisional reviews as well as other management meetings, for the formal identification of significant operational risks and mitigating control processes.*

Corporate Governance continued

- *A series of internal audit reviews of country/regions covering the financial, operational and overhead functions. These reviews are based on the identified risks. The findings and recommendations of each review are reported to management and the Audit Committee.*

- *System of reporting the effectiveness of key financial, operational and compliance controls. This is based on a comprehensive internal control self-assessment questionnaire collated and reviewed by Internal Audit. Results and action plans are reviewed by senior management and summarised for the Board.*

Dialogue with shareholders and AGM

The Board believes that good communications with shareholders is important. There are programmes for the Chief Executive and Group Finance Director to meet with Company's institutional investors and presentations are made on the operating and financial performance of the Group and its longer term strategy. Roadshows are held immediately after the presentation of the full year and interim results.

The non-executive directors are given regular updates as to the views of the institutional shareholders and the Chairman is available to meet with institutional shareholders should there be matters that such shareholders believe should be brought to his attention.

The principal communication with private investors is through the Annual Report, the Interim Report and the AGM. Shareholders are given the opportunity to ask questions of the Board and the Chairman of each Board Committee at the AGM and meet the executive and non-executive directors informally after the meeting. Separate resolutions are proposed for each item of business and the 'for', 'against' and 'abstention' proxy votes cast in respect of each resolution proposed at the meeting are counted and announced after the shareholders present have voted on each resolution. Notice of the AGM is posted to the shareholders with the Annual Report at least 20 working days before the date of the AGM.

Financial and other information is made available on the Company's website www.regus.com.

Remuneration Report

The report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the Regulations), which introduced new statutory requirements for the disclosure of directors' remuneration.

The Regulations require the auditors to report to the Company's members on the 'audited information' within the Remuneration Report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). As a result the report has been divided into separate sections for unaudited and audited information.

The report sets out the Company's policy on directors' remuneration for the forthcoming year (and so far as is practicable, for subsequent years) as well as information on remuneration paid to directors in the financial year.

UNAUDITED INFORMATION

MEMBERSHIP AND RESPONSIBILITIES OF THE REMUNERATION COMMITTEE

During 2004, the Remuneration Committee comprised three non-executive directors, Martin Robinson (the Chairman of the Committee), Roger Orf and John Matthews. On 11 March 2005, Stephen East, independent non-executive director, was appointed to the Committee in place of John Matthews.

The Committee meets at least three times a year. During 2004 the Committee met eight times, including three meetings to allot shares under the Company's share option schemes. The Committee has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors.

The Board has delegated to the Remuneration Committee responsibility to:

- *Make recommendations to the Board in respect of remuneration policy for the executive directors and the Group's other senior management.*
- *Approve any new service agreement entered into between the Group and any executive director.*
- *Make recommendations to the Board on the implementation of the Group's performance bonus schemes and share schemes.*

The Remuneration Committee has been advised and assisted by Slaughter and May, CJW Remuneration Consultants and the Company Secretary in determining directors' contracts and executive remuneration during the year. Slaughter and May are the Company's lawyers. No other services have been provided to the Company by CJW Remuneration Consultants during the year.

The Committee's terms of reference are available on the Company's website, www.regus.com. The members of the Remuneration Committee attend the Company's AGM and are available to answer shareholders' questions about directors' remuneration.

NON-EXECUTIVE DIRECTORS

Directors are not permitted, under Regus Group plc's Articles of Association, to vote on their own terms and conditions of remuneration.

The Board as a whole determines the remuneration of the Company's non-executive directors and the Chairman with non-executive directors and the Chairman exempting themselves from voting as appropriate. When determining the remuneration of non-executive directors, account is taken of practice adopted in other similar organisations.

REMUNERATION POLICY

The Company's policy on executive directors' remuneration is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Company's objectives and thereby enhancing shareholder value. A significant proportion of the executive directors' remuneration is structured so as to link rewards to the Group's performance. For 2004, the percentage of Mark Dixon's and Rudy Lobo's total remuneration which was performance based was 64% and 69% respectively. Performance based remuneration for these purposes include annual bonus potential and the fair value of option grants.

If appropriate the Remuneration Committee will use the services of external consultants to help it agree packages reflecting the remuneration policy. As such, since the year end, the Remuneration Committee has undertaken a review of the performance based remuneration for executive directors and senior management and received advice from Halliwell Consulting and Deloitte & Touche. It is the aim of the Remuneration Committee that its performance based incentives attract and retain individuals of the right calibre, comply with corporate governance best practice and align executives' interests with those of shareholders. As such it is intended that the Company put in place a new share incentive arrangement.

The details of the proposal for the new executive share plan and how it will sit within the overall remuneration policy are included in the shareholder circular being sent with this Annual Report. The Company believes these arrangements will comply with best practice and be suitable for the Company's ongoing requirements.

Non-executive directors are remunerated with fees, set at levels that are sufficient to attract and retain their services and are in line with market rates. The non-executive directors do not receive any pension or other benefits, other than out of pocket expenses, nor do they participate in any bonus or share option schemes.

Martin Robinson and Roger Orf have chosen until further notice to use their directors' fees (net of tax) to purchase Regus shares in the market on a quarterly basis.

SERVICE CONTRACTS

Details of contracts currently in place for directors are as follows:

	Date of contract	Term	Notice period and provision for compensation
Executive			
Mark Dixon	28 February 2005	N/A	12 months
Rudy Lobo	4 March 2005	N/A	12 months
Non-executive			
John Matthews	2 October 2003	3 years	6 months
Roger Orf	2 October 2003	3 years	6 months
Martin Robinson	2 October 2003	3 years	6 months
Stephen East	11 March 2005	3 years	6 months

The executive directors have signed new contracts subsequent to the year-end. The main amendments are:

(i) on termination of contract by the Company, the executive directors will be eligible to receive a bonus in accordance with the terms of any relevant plan;

Remuneration Report continued

(ii) on a change of control, the executive directors may terminate their employment by giving the Company one month's notice, to be given within six months of the change of control, and, if such notice is given, the Company must pay the executive director a sum equivalent to 12 months' salary, plus any bonus that has been earned to date.

It should be noted that whilst executive directors will be eligible to receive bonuses in the circumstances set out above, it is not intended that any bonus payments would be made unless the performance targets under the bonus plan had been achieved up until that point.

REMUNERATION PACKAGES

The remuneration for executive directors during the year comprised a combination of basic salary, annual bonus, deferred bonus, pension contribution and participation in share options.

BASIC SALARY AND BENEFITS

The Committee establishes salaries and benefits by reference to those prevailing in the employment market generally for executive directors of comparable status and market value.

Each executive director receives a salary, which reflects his responsibilities, experience and performance. Salaries are reviewed annually in the context of individual and related business performance. Any increases in basic salary are effective from 1 January in each year.

The base salaries of the two executive directors will be reviewed during the first half of 2005. Mark Dixon's base salary has remained the same since 2001 and Rudy Lobo received a £15,000 increase on 1 January 2004 to reflect the additional responsibilities of his new role as Group Finance Director.

ANNUAL BONUS SCHEME

Under the current annual bonus scheme, the executive directors are entitled to an annual bonus of up to 40% of their basic salary. The bonus payments for 2004 were based on the achievement of Group EBITDA targets for the last financial year. These targets were exceeded and as such bonus payments representing 40% of basic salary were made to Mark Dixon and Rudy Lobo.

In addition to the annual bonus, both Mark Dixon and Rudy Lobo received an additional bonus of £75,000 and £50,000 respectively for their performance in achieving the synergies from the integration of HQ, 12 months ahead of plan. The fact that these synergies have been achieved a year ahead of plan means the acquisition will be additionally accretive to shareholders and as such the Remuneration Committee believe that these discretionary payments are fully justified. Bonus payments are not pensionable.

Within its review of performance-based compensation for executive directors, the Remuneration Committee has reviewed annual bonus arrangements. The rationale behind and details of proposed bonus arrangements for 2005 within the context of a new Co-Investment Plan are set out in the circular to shareholders.

REGUS SUPER BONUS PLAN

Under the current Regus Super Bonus Plan, the executive directors are entitled to receive an annual share award of up to 100% of their basic salary (or a cash award of up to 50% of their basic salary), which is payable provided performance significantly exceeds budget targets, and is subject to the director remaining in employment with the Company for up to three years following the award. No payments have been made under this Plan in 2004 and none will be paid in 2005 in respect of the 2004 financial year, because the minimum performance target was not achieved.

Subject to shareholder approval for a new Co-Investment Plan, it is intended that the Regus Super Bonus Plan will be discontinued.

LONG TERM SHARE INCENTIVES

Overview

At the 2004 AGM shareholders approved the Regus Group Restricted Award Plan and the Regus Group Share Option Plan in which executive directors can participate. Details of these plans, which are also open to other staff members, are set out below.

As part of its review of performance-based remuneration for executives, the Remuneration Committee has reviewed the Company's current long term share incentive arrangements. Details of the Remuneration Committee's proposed ongoing long term share incentive policy is set out in the attached shareholder circular.

Regus Group Restricted Award Plan

No awards have been made under this Plan and it is intended that none will be made in 2005. The Remuneration Committee has undertaken to consult with investors and their representatives prior to the Plan being used.

Regus Group Share Option Plan

The Regus Group Share Option Plan has been established to assist in the recruitment and retention of key employees and directors.

The main features of the Regus Group Share Option Plan are set out below:

Plan Limits

1. The maximum number of un-issued shares over which options or awards may be granted under all plans may not exceed 10% of the equity share capital of the Company (over a rolling ten year period).

2. It is the Company's intention to limit the number of shares issued to directors and to senior executives to 5% of the equity share capital of the Company over a rolling ten year period, save where in the opinion of the Remuneration Committee there are very stretching performance criteria (based probably on earnings per share (EPS)).

3. The Remuneration Committee will endeavour to ensure that grants are phased over the life of the Plan so as to ensure that capacity does not become restricted in later years. At the moment, grants have been made over 7,991,151 ordinary shares (being 0.81% of the issued share capital).

Performance Criteria

1. Performance conditions will ordinarily be measured over a period of three or more years.

2. For grants made in 2004, performance conditions are based on the Company's EPS performance over a three year period. The Remuneration Committee believed that a sliding scale of EPS growth of 3%-6% p.a. in excess of the Retail Price Index was the most appropriate measure as regards performance criteria (as the Company has been in loss, a notional starting EPS of 1p per share was used). This represented a challenging performance condition in light of the Company's circumstances at that time.

3. The number of options that become exercisable for real growth of 3% per annum will not exceed 50% of salary.

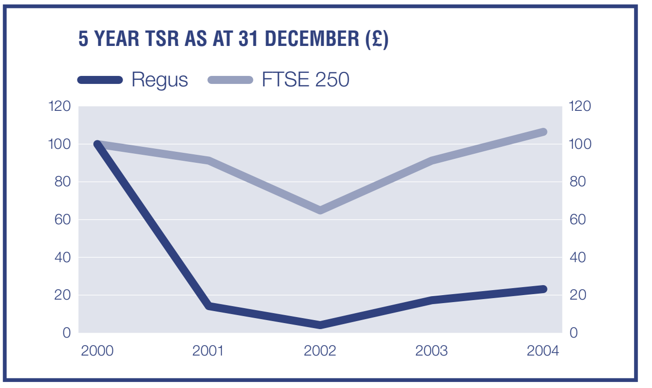
4. The Company and its predecessor has never retested performance conditions or re priced options and the Remuneration Committee has no intention of changing that policy.

5. There will be no automatic waiving of performance conditions in the event of a change of control or where grants are 'rolled over' on a change in capital structure. No performance targets were waived on the Scheme of Arrangement in 2003.

PENSION BENEFITS
The executive directors participate in the Company's Money Purchase (Personal Pension) Scheme. The Company matches contributions up to a maximum of 10% of basic salary.

The benefits that can be provided from the Company Pension Scheme are restricted by the operation of the Inland Revenue earnings cap.

EXTERNAL APPOINTMENTS
Executive directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are retained directly by the relevant executive director. At 31 December 2004, the executive directors did not hold any external positions for which they receive fees.



TOTAL SHAREHOLDER RETURN (TSR)
The above graph shows the Company's performance, measured by TSR for the Group compared with the performance of the FTSE 250 index since flotation of the Group in 2000. The FTSE 250 index has been chosen since it is an index of companies of similar size to Regus Group plc. The TSR index has been set to 100 as at 31 December 2000.

AUDITED INFORMATION

DIRECTORS' EMOLUMENTS
The aggregate emoluments, excluding pensions of the directors were as follows:

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	2004 Total £'000
Executive (a)					
Mark Dixon	**395.0**	**–**	**120.2**	**233.0**	**748.2**
Rudy Lobo	**180.0**	**–**	**13.2**	**122.0**	**315.2**
Non-executive (b)					
John Matthews	**–**	**115.0**	**–**	**–**	**115.0**
Roger Orf	**–**	**35.0**	**–**	**–**	**35.0**
Martin Robinson	**–**	**35.0**	**-**	**-**	**35.0**
	575.0	**185.0**	**133.4**	**355.0**	**1248.4**

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	2003 Total £'000
Executive (a)					
Mark Dixon	395.0	–	164.0	–	559.0
Rudy Lobo	165.0	–	10.5	–	175.5
Stephen Stamp (resigned 2 October 2003)	125.0	–	7.5	–	132.5
Non-executive					
John Matthews	–	90.0	–	–	90.0
Roger Orf	–	25.0	–	–	25.0
Martin Robinson	–	25.0	–	–	25.0
	685.0	140.0	182.0	–	1007.0

(a) Main benefits include, items such as company car or cash alternative, fuel, relocation costs, cash in lieu of pension contributions and medical insurance for the directors and their immediate family. In 2003, Mark Dixon's benefits principally include costs relating to his relocation to the USA. In 2004, Mark Dixon received a disturbance allowance of £75,000.

(b) The non-executive directors each received supplementary fees to reflect additional services provided in relation to the acquisition of HQ.

Remuneration Report
continued

PENSION CONTRIBUTIONS

	2004 £'000	2003 £'000
Mark Dixon	**31.6**	14.1
Rudy Lobo	**12.4**	12.4
Stephen Stamp	**–**	10.8
	44.0	37.3

DIRECTORS' SHARE INTERESTS

The following directors held beneficial interests in the share capital of the Company at 31 December 2004 and 11 March 2005.

			Ordinary Shares of 5p
	11 March 2005	31 December 2004	31 December 2003
Executive			
Mark Dixon (a)	**366,329,286**	**366,329,286**	365,329,286
Rudy Lobo	**4,697,098**	**4,697,098**	127,098
Non-executive			
John Matthews	**550,000**	**550,000**	479,617
Roger Orf	**695,088**	**687,280**	300,000
Martin Robinson	**20,088**	**12,280**	–

(a) The interests of Mark Dixon are held indirectly through Maxon Investments BV, an entity in which Mark Dixon holds 100% of the share capital.

DIRECTORS' SHARE OPTIONS

As at 11 March 2005, the beneficial interest of the directors in options over the Company's shares are shown below.

	Grant date	Interest in options over Ordinary Shares	Exercise price p	Date from which exercisable	Expiry date of grant	Note
Mark Dixon	8/9/04	1,708,108	64.75	8/9/07	8/9/14	A
Rudy Lobo	8/9/04	778,378	64.75	8/9/07	8/9/14	A

Note A

Granted under the Regus Group Share Option Plan, subject to EPS performance conditions set out on page 47.

No awards have been granted in respect of the Regus Group Restricted Award Plan.

Details of movements during the year in the number of directors' share options and awards are as follows:

	Maxon (a)	Regus Group Share Option Plan	Total
Mark Dixon			
At 1 January 2004	–	–	–
Granted	–	1,708,108	1,708,108
At 31 December 2004	**–**	**1,708,108**	**1,708,108**
Rudy Lobo			
At 1 January 2004	6,570,000	–	6,570,000
Granted	–	778,378	778,378
Exercised	(6,570,000)	–	(6,570,000)
At 31 December 2004	**–**	**778,378**	**778,378**

(a) Awarded to Rudy Lobo by Maxon pursuant to an agreement dated 17 September 1999 recording the terms of an agreement entered into on 11 November 1992 between Rudy Lobo and Maxon, as amended on 30 June 2000. On 9 November 2004, Rudy Lobo exercised his option over 6,570,000 shares in Regus Group plc on payment of £25,553 to Maxon. He subsequently sold 2,000,000 of these shares at a price per share of 80p.

All options were granted at the then prevailing market price.

The mid market price of the Company's ordinary shares at 31 December 2004 was 76.5p and the range during the year was 51.5p to 91.5p.

None of the directors had a beneficial interest in any contract of any significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

ANNUAL RESOLUTION

Shareholders will be given the opportunity to approve the Remuneration Report and the resolution in relation to the Regus Co-Investment Plan at the AGM on 26 May 2005.

AUDIT REQUIREMENT

Within the Remuneration Report, the sections on director's remuneration, shareholdings and pension benefits on pages 21 to 22 inclusive, are audited. All other sections of the Remuneration Report are un-audited.

On behalf of the Board

MARTIN ROBINSON
**CHAIRMAN,
REMUNERATION COMMITTEE**
11 March 2005

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- *Select suitable accounting policies and then apply them consistently.*
- *Make judgments and estimates that are reasonable and prudent.*
- *State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.*
- *Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.*

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report

We have audited the financial statements on pages 26 to 48. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report and Accounts and the Remuneration Report. As described on page 24, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 15 reflects the Company's compliance with the nine provisions of the 2003 Financial Reporting Council Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the un-audited part of the Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINION

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the loss of the Group for the year then ended.
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG AUDIT PLC
CHARTERED ACCOUNTANTS AND REGISTERED AUDITOR
London
11 March 2005

Consolidated Profit and Loss Account

For the year ended 31 December

	notes	2004 Continuing operations £'000	2004 Acquisitions £'000	2004 Total £'000	2003 Total *Restated* £'000
Turnover (including share of joint ventures and associate)	2	327,547	55,819	383,366	324,904
Less: share of turnover of joint ventures		(5,485)	–	(5,485)	(5,501)
Less: share of turnover of associate		(65,667)	–	(65,667)	(62,822)
Group turnover		256,395	55,819	312,214	256,581
Cost of sales (centre costs) before exceptional items		(216,169)	(44,798)	(260,967)	(239,683)
Exceptional cost of sales	4	(6,620)	–	(6,620)	–
Cost of sales (centre costs) after exceptional items		(222,789)	(44,798)	(267,587)	(239,683)
Gross profit (centre contribution)	2	33,606	11,021	44,627	16,898
Administration expenses before exceptional items and goodwill amortisation		(39,270)	(4,580)	(43,850)	(38,736)
Exceptional administration expenses	4	(967)	(1,028)	(1,995)	(6,355)
Goodwill amortisation		–	(2,037)	(2,037)	–
Administration expenses after exceptional items and goodwill amortisation		(40,237)	(7,645)	(47,882)	(45,091)
Group operating (loss)/profit		(6,631)	3,376	(3,255)	(28,193)
Share of operating loss in joint ventures				(653)	(213)
Share of operating loss in associate				(2,684)	(3,722)
Total operating loss				(6,592)	(32,128)
Profit on sale of subsidiaries	5			133	6,585
Loss on ordinary activities before interest	2			(6,459)	(25,543)
Net interest payable and similar charges	7			(2,190)	(4,397)
Loss on ordinary activities before tax	3			(8,649)	(29,940)
Tax on loss on ordinary activities	8			2,887	2,068
Loss on ordinary activities after tax				(5,762)	(27,872)
Equity minority interests				382	885
Retained loss for the financial year	18			(5,380)	(26,987)
(Loss)/earnings per ordinary share (p)	9				
Basic and diluted				(0.6p)	(4.7p)
Basic and diluted before exceptional items, amortisation of goodwill and profit on sale of subsidiaries				0.3p	(4.7p)

The restatement of 2003 Accounts is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

All results arose from continuing operations. Acquisitions include HQ Global Holdings Inc (USA) and Interlink Business Plaza (Korea).

Balance Sheets

As at 31 December

	notes	Group 2004 £'000	Group 2003 *Restated* £'000	Company 2004 £'000	Company 2003 £'000
Fixed assets					
Intangible assets	10	129,480	–	–	–
Tangible assets	11	78,137	67,136	–	–
Investments					
Investments in subsidiaries	12	–	–	304,313	29,256
Investment in associate	12	6,142	8,361	–	–
Other investments	12	5	5	–	–
		6,147	8,366	304,313	29,256
Current assets					
Stock		187	144	–	–
Debtors: falling due after more than one year	13	5,181	873	–	–
Debtors: falling due within one year	13	76,771	62,290	77,873	4,651
Cash at bank and in hand		82,324	85,001	21,179	50,163
		164,463	148,308	99,052	54,814
Creditors: falling due within one year	14	(167,351)	(134,189)	(167,655)	(414)
Net current (liabilities)/assets		(2,888)	14,119	(68,603)	54,400
Total assets less current liabilities		210,876	89,621	235,710	83,656
Creditors: falling due after more than one year	14	(78,289)	(34,190)	–	–
Provision for deficit on joint ventures					
Share of gross assets		4,109	5,076	–	–
Less: share of gross liabilities		(5,794)	(6,073)	–	–
	12	(1,685)	(997)	–	–
Provisions for liabilities and charges	16	(21,908)	(52,554)	–	–
Net assets		108,994	1,880	235,710	83,656
Capital and reserves					
Called up share capital	18	49,290	39,442	49,290	39,442
Share premium account	18	153,498	44,364	153,498	44,364
Other reserves	18	(22,709)	(22,711)	–	–
Profit and loss account	18	(69,746)	(58,139)	32,922	(150)
Shareholders' funds		110,333	2,956	235,710	83,656
Equity minority interests		(1,339)	(1,076)	–	–
Total capital employed		108,994	1,880	235,710	83,656

Shareholders' funds includes non-equity interests of £50,000.

The restatement of 2003 Accounts is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

Approval by the Board on 11 March 2005.

MARK DIXON
CHIEF EXECUTIVE

RUDY LOBO
GROUP FINANCE DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31 December

	notes	2004 £'000	2003 *Restated* £'000
Operating activities			
Net cash inflow/(outflow) before exceptional operating items		**24,228**	(8,754)
Net cash outflow from exceptional operating items		**(31,051)**	(5,868)
Net cash outflow from operating activities	**19(a)**	**(6,823)**	(14,622)
Returns on investments and servicing of finance			
Interest received		**1,712**	797
Interest paid		**(2,766)**	(1,750)
Interest on finance leases		**(537)**	(3,350)
Net cash outflow from returns on investment and servicing of finance		**(1,591)**	(4,303)
Tax paid		**(1,568)**	(1,951)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(5,305)**	(8,445)
Proceeds on disposal of tangible fixed assets		**608**	3,345
Net cash outflow from capital expenditure and financial investments		**(4,697)**	(5,100)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**(173,741)**	–
Net cash at bank and in hand acquired with subsidiaries		**10,758**	53
Proceeds on disposal of sudsidiary undertakings		**–**	6.695
Net cash at bank and in hand disposed with subsidiaries		**(12)**	(1,137)
Investment in joint ventures		**–**	(412)
Net cash (outflow)/inflow from acquisitions and disposals		**(162,995)**	5,199
Cash outflow before management of liquid resources and financing		**(177,674)**	(20,777)
Management of liquid resources	**19(b)**	**(6,443)**	8,511
Financing	**19(b)**	**171,549**	47,616
(Decrease)/increase in cash	**19(c) & (d)**	**(12,568)**	35,350

The restatement of 2003 Accounts is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	2004 £'000	2003 *Restated* £'000
Retained loss for the financial year	**(5,380)**	(26,987)
Exchange rate movements	**(8,299)**	3,778
Total recognised gains and losses for the year	**(13,679)**	(23,209)
Prior year adjustment (see note 18)	**9,606**	
Total gains and losses recognised since the last Annual Report	**(4,073)**	

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 December

	2004 £'000	2003 *Restated* £'000
Retained loss for the financial year	**(5,380)**	(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
Net proceeds of ordinary shares issued by placing	**118,982**	–
Other shares issued	**–**	1,697
Sale of shares held by ESOP (see note 18)	**2,074**	3,666
Exchange rate movements	**(8,299)**	3,778
Net increase in shareholders' funds	**107,377**	35,153
Opening shareholders' funds/(deficit) at 1 January (originally £3,803,000 before prior year adjustment of £847,000)	**2,956**	(32,197)
Closing shareholders' funds at 31 December	**110,333**	2,956

The restatement of 2003 Accounts is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

Notes to the Accounts

1 ACCOUNTING POLICIES

The following accounting policies adopted by directors have been applied consistently throughout the current year and prior year with the exception of the change in accounting policy resulting from the adoption of UITF 38 'Accounting for ESOP Trusts'. UITF 38 has been adopted with effect from 1 January 2004. The prior year results have been adjusted accordingly, as explained in note 18.

Basis of preparation

These financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The consolidated financial statements of Regus Group plc consolidate the results of the Company and all its subsidiary undertakings. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included as part of these accounts. The Company's profit for the financial year was £33.1 million (2003: £0.2 million loss).

References to the Company are to Regus Group plc and references to 'Regus' or the 'Group' are to the Company and its subsidiaries.

The Group does not directly own the share capital of LLC Regus Business Centre TM, a Trust which operates in Russia. Consequently, it does not fulfil the definition of a subsidiary undertaking but is directly controlled by the Group and gives rise to benefits for the Group that are, in substance, no different from those that would arise were the entity a subsidiary undertaking. The Trust generated revenues of £6.5 million in 2004 (2003: £5.8 million). The Group has consolidated the results of the Trust as a quasi-subsidiary.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Scheme of Arrangement

On 29 August 2003 Regus plc (Old Regus) announced its intention to re-organise the Regus group of companies by putting in place a new holding company via a court approved Scheme of Arrangement under Section 425 of the Companies Act 1985 (the Scheme). In accordance with the court order under the Scheme of Arrangement, the issued share capital and the share premium of Old Regus at the effective date of the Scheme was cancelled against distributable reserves.

Under the Scheme, shareholders received one ordinary 5p share in the Company for each share held in Old Regus. Old Regus was renamed Regus Limited and became a wholly owned subsidiary of the Company.

The Scheme was approved by shareholders at an Extraordinary General Meeting held on 25 October 2003 and was sanctioned by the High Court on 28 November 2003. It became effective on 1 December 2003. The Scheme was accounted for using merger accounting principles in accordance with FRS 6 'Acquisitions and Mergers'.

Goodwill

On the acquisition of a business fair values are attributed to the separable net assets acquired. Goodwill arises where the fair value of the consideration given and associated costs for a business differs from the fair value of such net assets. Goodwill is capitalised and amortised to the profit and loss account in equal instalments over its estimated useful life, not to exceed 20 years.

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

Intangibles – Brands

Brands are included in the accounts at independent valuation at the date of acquisition. Intangibles are capitalised and amortised to the profit and loss account in equal instalments over their estimated useful life generally not to exceed 20 years.

Associate and joint venture undertakings

An associate is an undertaking, not being a subsidiary, in which the Group holds a long-term interest and over whose commercial and financial policy decisions it actually exercises significant influence. The Group's share of the profit and loss account from its associate is included in the consolidated profit and loss account on the equity accounting basis. The carrying value of associates in the Group's balance sheet is calculated by reference to the Group's share of net assets of such undertakings.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. In accordance with FRS 9, joint ventures are included under the gross equity method. As a result, the Group's share of the profits less losses of joint venture interest is included in the consolidated profit and loss account and its interest in their net assets is included as investments in the consolidated balance sheet.

Investments

Fixed asset investments are accounted for at cost. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit and loss account.

Turnover

Turnover, which excludes value added tax (VAT), represents the amount receivable in respect of services provided to customers and is accounted for on an accruals basis. Revenue is recognised monthly as services are provided. Office income is invoiced in advance, deferred and recognised on provision of the service. Service income is recognised in the month the service is provided.

Interest

Interest is recorded in the consolidated profit and loss account on an accruals basis.

Debt finance costs

Finance costs associated with the raising of debt are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost less estimated residual value of assets on a straight-line basis over their expected useful economic lives to the Group over the following periods:

Furniture – 5 years
Fixtures and fittings – shorter of the first break point of the building lease or 10 years
Telephones and office equipment – 5 years
Motor vehicles – 4 years
Computer hardware – 3 years
Computer software – 2 years

Profit and loss on disposal of fixed assets

Profit and losses on the disposal of fixed assets are charged/credited to the profit and loss account as incurred.

Pensions
The Group contributes to defined contribution schemes for the benefit of employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Group contributions are charged to the consolidated profit and loss account in the year which they are incurred.

Share Schemes
The Group's share based incentive schemes are accounted for in accordance with UITF Abstract 17 'Employee Share Schemes'. The fair market value of the shares at the date of grant, less any consideration to be received from the employee, is charged to the profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continuing employment) an assessment of the likelihood of these conditions being achieved is made at the end of each accounting year.

Taxation
Current taxation
Current tax, including UK corporation and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation
The Group provides deferred taxation in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date based on current tax rates and law except as otherwise required by FRS 19 'Deferred tax'. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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

The results of overseas operations are translated using the closing rate method. Profits, losses and cash flows of overseas operations are translated at the average exchange rate applicable to the period.

Gains and losses arising on the translation of the net assets of overseas subsidiaries, less exchange differences arising on matched foreign currency borrowings are taken to reserves and disclosed in the statement of total recognised gains and losses.

The principal exchange rates against sterling used in these financial statements were:

	2004 Average	**2004 Closing**	2003 Average	2003 Closing
US dollar	**1.832**	**1.926**	1.645	1.785
Euro	**1.472**	**1.411**	1.446	1.419

Provisions
Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where the appropriate communication to those affected has been undertaken at the balance sheet date.

Onerous contracts
In accordance with FRS 12 'Provisions, contingent liabilities and contingent assets', the Group's property provisions have been discounted using the Group's weighted average cost of capital, to the present value of future net lease obligations and related costs of leasehold property where the space is currently not planned to be used for ongoing operations.

Leases
Finance leases
Assets acquired under finance leases are capitalised and the capital element of outstanding lease rentals is included in borrowings. The interest element of the rental obligations is charged to the consolidated profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Operating leases
Operating lease rentals are charged to the consolidated profit and loss account on a straight-line basis over the applicable lease period. Lease incentives are recognised on a straight-line basis over the shorter of the lease term and the period upto the date of the next market rent review.

The rental on certain leases is wholly or partly conditional on the profitability of the centre and therefore the risk to the business, in terms of rent, is reduced. Once all outstanding rent has been paid, landlords receive a share of the profits of the centre. For these leases an estimate is made of the likely rent payable based on profitability in respect of the period up to the shorter of the period to the first break date and the total lease term. Any subsequent changes in estimates are spread over the remaining period to the date of the first market rent review or first break point in the lease, whichever is sooner. Amounts payable in respect of profit shares are accrued once a sufficient net surplus has been made which would result in a profit share being paid.

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

Financial instruments
Occasionally the Group uses certain derivative financial instruments to reduce exposure to foreign currency. The Group does not hold or use derivative financial instruments for speculative purposes.

The financial instruments used by the Group to manage its currency risks are forward contracts and currency options. Interest payments arising from financial instruments are recognised within interest payable over the period of the contract. Any premia or discounts arising are amortised over the lives of the instruments.

Forward currency contracts entered into with respect to trading transactions are accounted for as hedges, with the instrument's impact on profit deferred until the underlying transaction is recognised in the profit and loss account.

Cash and liquid resources
Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Notes to the Accounts
continued

2 SEGMENTAL ANALYSIS

The following tables set out the Group's segmental analysis by geographic region.

	Turnover		Gross profit/(loss) (centre contribution)	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Geographical analysis				
Americas				
Regus	**83,840**	85,641	**4,765**	(4,126)
HQ	**55,669**	–	**10,988**	–
Total Americas	**139,509**	85,641	**15,753**	(4,126)
Asia Pacific	**25,168**	24,174	**5,330**	3,478
EMEA (b)	**150,366**	148,488	**20,888**	13,767
UK (c)	**65,667**	62,822	**–**	–
Other (d)	**2,656**	3,779	**2,656**	3,779
Continuing operations	**383,366**	324,904	**44,627**	16,898
Total Group	**312,214**	256,581		
Total joint ventures and associate	**71,152**	68,323		

	Profit/(loss) before interest and tax (a)		Net operating assets/(liabilities) as at	
	2004 £'000	2003 *Restated* £'000	**31 December 2004 £'000**	31 December 2003 *Restated* £'000
Geographical analysis				
Americas				
Regus	**(5,755)**	(22,953)	**(2,247)**	(3,855)
HQ	**3,363**	–	**144,562**	–
Total Americas	**(2,392)**	(22,953)	**142,315**	(3,855)
Asia Pacific	**2,481**	826	**3,126**	3,216
EMEA (b)	**3,252**	846	**(49,866)**	(40,653)
UK	**(2,684)**	(3,722)	**6,142**	8,361
Other (e)	**(7,116)**	(540)	**1,006**	(24,397)
Continuing operations	**(6,459)**	(25,543)	**102,723**	(57,328)
Net debt			**4,932**	58,132
Minority interest			**1,339**	1,076
			108,994	1,880
Total Group	**(3,122)**	(21,608)	**104,537**	(5,484)
Total joint ventures and associate	**(3,337)**	(3,935)	**4,457**	7,364

(a) Includes exceptional costs.
(b) EMEA represents Europe, Middle East and Africa.
(c) UK represents our 42% interest in the ordinary shares of Regus Holdings (UK) Limited – our UK associate.
(d) Represents management fees received from the UK associate.
(e) Mainly holding company costs.

Exceptional items are disclosed in note 4 to these Accounts. The Group's share of sales and operating profits of joint ventures and associate is proportionate to its equity holdings. There is no significant trading between geographical regions.

Interest and other finance costs and net borrowings are managed centrally and are not directly attributable to individual regions.

The restatement of 2003 Accounts is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAX

	2004 £'000	2003 £'000
Loss on ordinary activities before tax is stated after charging the following:		
Depreciation of tangible fixed assets:		
owned assets	**20,437**	19,678
under finance leases	**9,652**	9,847
Amortisation of goodwill	**2,037**	–
Amortisation of intangibles	**651**	–
Loss on disposal of fixed assets	**33**	1,686
Rents payable in respect of operating leases:		
property	**130,348**	112,496
equipment	**4,334**	6,764
Audit fees (Company 2004 and 2003: £4,000)	**628**	626
Non audit fees paid to KPMG Audit Plc	**47**	516
Exceptional items (see note 4)	**8,615**	6,355

(a) During the year the Group paid KPMG Audit Plc the following for non audit services:

	£'000
Regulatory reporting	636
Due diligence	364
Total acquisition of HQ	**1,000**
US GAAP non statutory audit opinion	30
Other	17
	1,047

The fee relating to the acquisition has been recognised as a cost of acquisition with the remainder recognised in the profit and loss account.

4 EXCEPTIONAL ITEMS

Included in the results for the year to 31 December 2004 were pre-tax exceptional charges totalling £8.6 million (2003: £6.4 million) as follows:

	2004 £'000	2003 £'000
Continuing operations		
Cost of sales:		
Onerous leases, related closure and restructuring costs [(a)]	**3,381**	–
Write-down of tangible assets [(b)]	**3,239**	–
	6,620	–
Administration expenses:		
Fees relating to the integration of HQ	**1,459**	–
Severance pay	**327**	–
Onerous leases, fixed asset impairment and restructuring costs	**(276)**	337
Release of provisions relating to Chapter 11 and Scheme of Arrangement [(c)]	**(543)**	6,018
	967	6,355
Exceptional operating items – continuing operations	**7,587**	6,355
Acquisitions		
Administration expenses:		
Integration costs in relation to HQ acquisition	**1,028**	–
Exceptional operating items – acquisitions	**1,028**	–
Group exceptional operating items	**8,615**	6,355

Current year exceptional operating items
(a) As a result of a detailed review of our lease portfolio, three centres have been identified for divestment at an estimated cost of £3.4 million.
(b) Fixed asset impairment charge of £3.2 million relates to loss making centres.

Prior year exceptional operating items
(c) In the prior year corporate advisory costs of £6.0 million were incurred in closing out the Chapter 11 process and implementing the Scheme of Arrangement which had the effect of creating a new parent company – Regus Group plc.

The tax effect on the exceptional items is £2.2 million (2003: £nil).

Notes to the Accounts
continued

5 PROFIT ON THE SALE OF SUBSIDIARIES

In 2004, the Group dissolved companies in Latvia and Norway which resulted in a profit on disposal of £0.1 million.

In 2003 the Group received net £6.7 million of deferred consideration from Alchemy Partners, relating to the disposal of 58% of our interest in the UK business in December 2002. The deferred consideration received was contingent on the outcome of the audit of the completion accounts, and therefore was not recognised in 2002. No further consideration was received in 2004. In addition the Group disposed of a German subsidiary in 2003 resulting in a loss on disposal of £0.1 million.

6 STAFF NUMBERS AND COSTS

	2004 £'000	2003 £'000
The aggregate payroll costs were as follows:		
Wages and salaries	**50,839**	40,781
Social security	**8,460**	6,271
Pension costs	**386**	435
	59,685	47,487

	2004 Average full time equivalents	2003 Average full time equivalents
The average number of persons employed by the Group (including executive directors), analysed by category and geography, was as follows:		
Centre staff	**1,442**	1,167
Sales staff	**203**	170
Finance staff	**125**	112
Other staff	**111**	83
	1,881	1,532
EMEA	**916**	922
Americas	**801**	456
Asia Pacific	**164**	154
	1,881	1,532

Employee numbers in 2004 are inclusive of HQ employees who joined the Regus Group in August 2004. At 31 December 2004 the Group, including HQ employed 2,521 persons. HQ accounted for 954 employees.

Details of directors' emoluments and interests are given in the Remuneration Report on pages 19 to 23.

7 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Interest payable and similar charges:		
Bank loans and overdrafts	**2,890**	1,913
Finance leases	**493**	3,372
Amortisation of financing fees	**274**	–
	3,657	5,285
Interest receivable	**(1,424)**	(798)
	2,233	4,487
Share of joint ventures net interest payable	**97**	–
Share of associate net interest receivable	**(140)**	(90)
Net interest payable and similar charges	**2,190**	4,397

8 TAXATION

(a) Analysis of charge in the year

	2004 £'000	2003 £'000
Current taxation		
United Kingdom tax		
Corporation tax (2004 and 2003: 30%)	–	950
(Over)/under provision in respect of prior years	(450)	406
Overseas tax		
Corporation tax	1,476	385
Over provision in respect of prior years	(97)	(2,301)
Total current taxation	929	(560)
Deferred taxation		
Origination and reversal of timing differences	(3,491)	(1,973)
Share of associate deferred tax (credit)/charge	(325)	465
Total deferred taxation	(3,816)	(1,508)
Tax on loss on ordinary activities	(2,887)	(2,068)

The actual current tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation:

(b) Reconciliation of taxation charge

	2004 £'000	2003 *Restated* £'000
Loss on ordinary activities before tax	(8,649)	(29,940)
Tax credit at 30% (2003: 30%)	(2,595)	(8,982)
Effects of:		
Expenses not deductible for tax purposes	2,248	5,059
Profit on disposal of interests in group companies not subject to tax	–	(2,112)
Non taxable income	(69)	(18,624)
Depreciation in excess of capital allowances	1,627	(113)
Short term timing differences	(9,919)	2,787
Utilisation of tax losses	(2,480)	(285)
Losses carried forward to future periods	12,772	22,319
Differences in tax rates on overseas earnings	(108)	1,286
Adjustment to tax charge in respect of previous periods	(547)	(1,895)
Total current taxation	929	(560)

(c) Factors that may effect the future tax charge

Tax losses to carry forward against certain future overseas corporation tax liabilities have the following expiration dates:

	2004 £'000	2003 £'000
2004	–	7,838
2005	3,214	8,755
2006	3,706	6,297
2007	2,340	4,561
2008	7,975	2,700
2009	3,897	751
2010	1,224	93
2011 and later	172,282	123,422
	194,638	154,417
Available indefinitely	45,292	123,198
Tax losses available to carry forward	239,930	277,615

Notes to the Accounts
continued

8 TAXATION CONTINUED

The Group has recognised a £2.4 million (2003: £2.6 million) deferred tax asset in respect of these losses. The recoverability of deferred tax assets is supported by the expected level of future profits in the countries concerned.

Deferred tax assets of £91.4 million (2003: £76.0 million) have not been recognised in respect of losses and other timing differences due to the uncertainty of the availability of suitable profits in the foreseeable future.

(d) Deferred taxation
Deferred taxation is included in the balance sheet as follows:

	2004 £'000	2003 £'000
Debtors receivable within one year	998	1,777
Debtors receivable after more than one year	5,157	873
	6,155	2,650

	2004 £'000	2003 £'000
Accelerated capital allowances	2,660	–
Tax losses	2,403	2,650
Other short term timing differences	1,092	–
	6,155	2,650

9 (LOSS)/EARNINGS PER ORDINARY SHARE

(Loss)/earnings per ordinary share has been calculated by dividing the loss for the year retained for equity shareholders by weighted average number of shares in issue during the year.

In 2004 and 2003 share options were not included in the computation of diluted loss per share due to them being anti dilutive.

The calculation of basic and diluted (loss)/earnings per share before exceptional items, amortisation of goodwill and profit on sale of subsidiaries has been included as it removes the effect of non recurring items which have had a disproportionate effect on the earnings of the business during the year. In the opinion of the directors, this measure should therefore provide a better understanding of the underlying trading performance of the Group.

In August 2004, 196,958,408 new ordinary shares of 5p each were placed in the market at 62.25p per share.

The (loss)/earnings per ordinary share are based on the following:

	2004		2003	
	£'000	(Loss)/earnings per ordinary share – basic and diluted p	£'000	(Loss)/earnings per ordinary share – basic and diluted p
Loss for the year retained for equity shareholders	(5,380)	(0.6)	(26,987)	(4.7)
Exceptional cost of sales	6,620	0.8	–	–
Exceptional administration expenses	1,995	0.2	6,355	1.1
Profit on sale of subsidiaries	(133)	(0.0)	(6,585)	(1.1)
Goodwill amortisation	2,037	0.2	–	–
Tax effect on exceptionals	(2,188)	(0.3)	–	–
Profit/(loss) for the year before exceptional items, amortisation of goodwill and profit on sale of subsidiaries	2,951	0.3	(27,217)	(4.7)

	2004 Number	2003 Number
Weighted average number of ordinary shares in issue during the year used to calculate basic and diluted (loss)/earnings per share	859,702,000	574,805,000

10 INTANGIBLE ASSETS

	Brand £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2004	–	9,347	9,347
Additions at cost [(a) and (b)]	36,753	104,578	141,331
Exchange rate movements	(2,585)	(6,608)	(9,193)
At 31 December 2004	**34,168**	**107,317**	**141,485**
Amortisation			
At 1 January 2004	–	9,347	9,347
Charge for the year	651	2,037	2,688
Exchange rate movements	(30)	–	(30)
At 31 December 2004	**621**	**11,384**	**12,005**
Net carrying value			
At 31 December 2004	**33,547**	**95,933**	**129,480**
At 31 December 2003	–	–	–

(a) The brand comprises the fair value attributed to the HQ brand on its acquisition in August 2004. The fair value of the brand was determined by discounting the incremental cash flows generated by the brand.
(b) Capitalised goodwill relates to acquisitions of HQ Global Holdings Inc in the USA (20 August 2004) and Interlink Business Plaza in Korea (6 August 2004).

The brand and goodwill have been capitalised and amortised over its useful economic life of 20 years.

11 TANGIBLE ASSETS

			Group
	Furniture, fittings and motor vehicles £'000	Computers £'000	Total £'000
Cost			
At 1 January 2004	199,660	20,723	220,383
Additions	8,460	900	9,360
Acquisition of subsidiaries	37,993	2,838	40,831
Disposals	(3,343)	(528)	(3,871)
Exchange rate movements	(8,757)	(569)	(9,326)
At 31 December 2004	**234,013**	**23,364**	**257,377**
Accumulated depreciation			
At 1 January 2004	134,682	18,565	153,247
Charge for the year	28,235	1,854	30,089
Impairment losses (see note 4)	3,239	–	3,239
Disposals	(2,728)	(502)	(3,230)
Exchange rate movements	(3,760)	(345)	(4,105)
At 31 December 2004	**159,668**	**19,572**	**179,240**
Net book value			
At 31 December 2004	**74,345**	**3,792**	**78,137**
At 31 December 2003	64,978	2,158	67,136

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

	2004 £'000	2003 £'000
Cost	**47,457**	46,629
Accumulated depreciation	**(37,788)**	(31,018)
Net book value at 31 December	**9,669**	15,611

Notes to the Accounts
continued

12 INVESTMENTS

	Group					Company
	Investment in associate £'000	Investment in joint ventures £'000	Other investments £'000	Group investment in own shares £'000	Total £'000	Investment in subsidiaries £'000
At 1 January 2004 as previously stated	**8,361**	**(997)**	**5**	**847**	**8,216**	**29,256**
Prior year adjustment for UITF 38 [(a)]	–	–	–	(847)	(847)	–
At 1 January 2004 as restated	**8,361**	**(997)**	**5**	**–**	**7,369**	**29,256**
Additions [(b)]	–	–	–	–	–	275,057
Disposals	–	(33)	–	–	(33)	–
Share of losses of joint ventures and associate	(2,219)	(810)	–	–	(3,029)	–
Exchange rate movements	–	155	–	–	155	–
At 31 December 2004	**6,142**	**(1,685)**	**5**	**–**	**4,462**	**304,313**

(a) The prior year figures have been restated for UITF 38 'Accounting for ESOP Trusts' as discussed in note 18. The investment in own shares has been reclassified as a deduction in arriving at shareholders' equity.
(b) Investments in subsidiaries of Regus Group plc are stated at cost less provision for impairment where appropriate. During the year the Company acquired a number of shares of subsidiaries previously owned by other Group companies.

Principal subsidiaries and joint ventures are listed on pages 50 to 51.

The following information is given in respect of the Group's 42% interest in the ordinary shares of its associate, Regus Holdings (UK) Limited, which became an associate on 31 December 2002.

	2004 £'000	2003 £'000
Share of associate		
42% share of profit and loss account:		
Turnover	**65,667**	62,822
Loss before tax	**(2,544)**	(3,632)
Taxation	**325**	(465)
Loss after tax	**(2,219)**	(4,097)
42% share of net assets:		
Fixed assets	**16,565**	21,175
Current assets	**27,762**	25,428
Liabilities due within one year	**(37,642)**	(37,909)
Liabilities due after one year	**(543)**	(333)
Net assets	**6,142**	8,361

13 DEBTORS

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Falling due within one year				
Trade debtors	**34,781**	23,310	**–**	–
Amounts owed by Group subsidiaries	**–**	–	**77,823**	1,375
Amounts owed by joint ventures and associate	**5,100**	3,835	**–**	–
Other debtors	**21,735**	21,867	**50**	3,276
Prepayments and accrued income	**13,031**	9,031	**–**	–
Deferred tax asset	**998**	1,777	**–**	–
VAT recoverable	**1,126**	2,470	**–**	–
	76,771	62,290	**77,873**	4,651
Falling due after more than one year				
Deferred tax asset	**5,157**	873	**–**	–
Other debtors	**24**	–	**–**	–
	5,181	873	**–**	–
Total debtors	**81,952**	63,163	**77,873**	4,651

	Group 2004 £'000	Group 2003 £'000
Deferred tax asset		
At 1 January	**2,650**	–
Transfer in the year	**–**	649
Current year movement	**1,609**	2,353
Prior year movement	**1,882**	(380)
Exchange difference	**14**	28
At 31 December	**6,155**	2,650
Analysed as:		
Falling due within one year	**998**	1,777
Falling due after more than one year	**5,157**	873

14 CREDITORS

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Falling due within one year				
Bank loans and overdrafts	**7,688**	2,507	**–**	–
Current instalment due on other loans	**647**	693	**–**	–
Obligations under finance leases	**7,310**	6,687	**–**	–
Amounts owed to Group subsidiaries	**–**	–	**167,603**	2
Trade creditors	**19,245**	19,285	**–**	–
Customer deposits	**48,766**	32,142	**–**	–
Other tax and social security	**4,376**	3,295	**–**	–
Corporation tax	**6,938**	8,403	**–**	–
Deferred income	**33,983**	21,450	**–**	–
Deferred landlord contributions	**991**	1,150	**–**	–
Rent accruals	**8,067**	10,713	**–**	–
Other accruals	**24,066**	22,659	**52**	412
Other creditors	**5,274**	5,205	**–**	–
	167,351	134,189	**167,655**	414

Notes to the Accounts
continued

14 CREDITORS CONTINUED

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Falling due after more than one year				
Bank loans	**49,980**	–	**–**	–
Unamortised financing fees	**(4,124)**	–	**–**	–
Loan from UK associate	**5,000**	5,000	**–**	–
Other loans	**827**	1,019	**–**	–
Obligations under finance leases	**5,941**	10,962	**–**	–
Accruals and deferred income	**959**	632	**–**	–
Rent accruals	**16,398**	16,577	**–**	–
Other creditors	**3,308**	–	**–**	–
	78,289	34,190	**–**	–

15 BORROWINGS – MATURITY PROFILE OF BANK LOANS AND OTHER LOANS

The Group's total loan and borrowing position at 31 December 2004, and at the previous year end had the following maturity profiles:

	Group 2004 £'000	Group 2003 £'000
Repayments fall due as follows		
Amounts falling due after more than one year:		
In more than one year but not more than two years	**7,284**	184
In more than two years but not more than five years	**34,882**	594
In more than five years [(a)]	**13,641**	5,241
	55,807	6,019
Amounts falling due within one year	**8,335**	3,200
	64,142	9,219

(a) Loans not wholly repayable within five years total £13.6 million (2003: £5.2 million) and mature between 2010 and 2012. The average year end interest on these loans is 8.4% (2003: 7.6%).

Obligations under finance leases

The maturity of the Group's finance obligations is as follows:

	Group 2004 £'000	Group 2003 £'000
Amounts payable		
Within one year or on demand	**7,472**	9,284
In more than one year but not more than two years	**4,764**	7,893
In more than two years but not more than five years	**2,247**	5,400
In more than five years	**123**	270
	14,606	22,847
Less: finance charges allocated to future periods	**(1,356)**	(5,198)
Present value of future minimum lease payments	**13,250**	17,649
Amounts falling due within one year	**7,309**	6,687
Amounts falling due after more than one year	**5,941**	10,962

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Group Onerous leases £'000
At 1 January 2004	**52,554**
Provided in the year	**2,807**
Utilised in the year [(a)]	**(32,144)**
Provision released	**(637)**
Exchange rate movements	**(672)**
At 31 December 2004	**21,908**
Amounts falling due within one year	**13,021**
Amounts falling due after one year	**8,887**

(a) £25.0 million of the amount utilised in the year was in relation to the settlement of Chapter 11 liabilities.

There is no provided or unprovided deferred tax liability (see note 8 and 13).

17 SHARE CAPITAL

(a) Ordinary equity share capital

	2004		2003	
	Number	**Nominal value £'000**	Number	Nominal value £'000
Authorised				
Ordinary 5p shares	**1,600,000,000**	**80,000**	1,600,000,000	80,000
Issued and fully paid up:				
At 1 January	**787,833,632**	**39,392**	–	–
Issued during 2003				
Scheme of Arrangement and Rights Issue	**–**	**–**	787,833,632	39,392
Issued during 2004				
Placing and Open Offer	**196,958,408**	**9,848**	–	–
At 31 December	**984,792,040**	**49,240**	787,833,632	39,392

In August 2004 196,958,408 new ordinary shares of 5p each were placed in the market at 62.25p per share. This raised £119.0 million net of £3.6 million expenses, resulting in £9.8 million being credited to share capital and £112.8 million being credited to share premium.

(b) Non equity £1 redeemable preference shares

	2004		2003	
	Number	**Nominal value £'000**	Number	Nominal value £'000
Allotted and called up	**50,000**	**50**	50,000	50

The holders of the preference shares can only redeem their holdings at the option of the Company at their paid up value. The shares do not participate in any distribution of profits or proceeds in the event of a winding up. The redeemable preference shareholders are not entitled to vote at a general meeting of Regus Group plc. At 31 December 2004 £37,500 remains unpaid.

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18 CAPITAL AND RESERVES

	Share capital £'000	Share premium account £'000	Profit and loss reserve £'000	Other (non-distributable) £'000	Total £'000
Group					
At 1 January 2004 as originally reported	39,442	44,364	(57,292)	(22,711)	3,803
Prior year adjustment	–	–	(847)	–	(847)
At 1 January 2004 as restated	**39,442**	**44,364**	**(58,139)**	**(22,711)**	**2,956**
Placing and Open Offer	9,848	112,758	–	–	122,606
Issue costs on Placing and Open Offer	–	(3,624)	–	–	(3,624)
Retained loss for year	–	–	(5,380)	–	(5,380)
Proceeds from sale of own shares	–	–	2,074	–	2,074
Exchange rate movements	–	–	(8,301)	2	(8,299)
At 31 December 2004	**49,290**	**153,498**	**(69,746)**	**(22,709)**	**110,333**

All remaining shares in the ESOP were sold during the year at an average price of 51.5p. Profit and loss reserves have been restated to reflect an adjustment in respect of shares previously held by the ESOP Trust. During 1999 the Group established the Regus Employee Trust. The Trustee is Mourant & Co Trustees Limited which is an independent professional trust company in Jersey. The Trust is a discretionary trust for the benefit of employees (including directors). The ESOP provides for the issue of options and the payment of bonuses to the Group's employees (including directors) at the discretion of the Company. The Trustee is not entitled to receive dividends. At 31 December 2004 the Trust had nil shares in Regus Group plc and cash (restricted use) of £1.9 million.

Other (non-distributable) reserves includes £29.2 million arising from the Scheme of Arrangement undertaken in 2003, partly offset by £6.5 million relating to a merger reserve.

	Share capital £'000	Share premium account £'000	Profit and loss reserve £'000	Total £'000
Company				
At 1 January 2004	39,442	44,364	(150)	83,656
Placing and Open Offer	9,848	112,758	–	122,606
Issue costs on Placing and Open Offer	–	(3,624)	–	(3,624)
Retained profit for year	–	–	33,072	33,072
At 31 December 2004	**49,290**	**153,498**	**32,922**	**235,710**

The Company's profit and loss account of £32.9 million includes non distributable reserves of £31.9 million. During the year the Company received £31.9 million by way of dividend in specie.

Prior year adjustment
Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts' has been adopted with effect from 1 January 2004. The adoption of UITF 38 requires that an entity's own shares held in ESOP Trust are deducted in arriving at shareholders' funds. The impact is set out in (a) and (b) below.

In 2003 the ESOP Trust disposed of 12,000,000 shares resulting in a net profit of £0.7 million. During 2004 the ESOP Trust sold its remaining shares in the Company. A prior year adjustment gave rise to a £0.8 million debit adjustment to reserves.

(a) Consolidated balance sheet
The table below sets out the impact of the adoption of UITF 38 on the balance sheet at 31 December 2003.

	Group investment in own shares £'000	Profit and loss reserve £'000
At 31 December 2003 as previously stated	847	(57,292)
Adoption of UITF 38	(847)	(847)
At 31 December 2003 as restated	–	(58,139)

The above restatement has reduced net assets of the Group by £847,000 at 31 December 2003.

(b) Profit and loss reserves
Under UITF 38, any impairment in the carrying value of shares held in the ESOP Trust is no longer charged to the profit and loss account, and as such, a prior year adjustment of £9.6 million in respect of previous years' impairments has been credited directly to the profit and loss reserve.

19 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to operating cash flow

	2004 £'000	2003 £'000
Group operating loss	**(3,255)**	(28,193)
Depreciation on tangible fixed assets	**30,089**	29,525
Provisions for impairment on fixed assets	**3,239**	–
Amortisation of goodwill	**2,037**	–
Amortisation of intangible assets	**651**	–
Loss on disposal of fixed assets	**33**	1,686
Decrease in provisions	**(5,637)**	(5,581)
(Increase)/decrease in stocks	**(48)**	138
(Increase)/decrease in debtors	**(1,037)**	3,608
Decrease in creditors	**(5,075)**	(15,805)
Net cash inflow/(outflow) before Chapter 11 creditor payments	**20,997**	(14,622)
Chapter 11 payments	**(27,820)**	–
Net cash outflow from operating activities	**(6,823)**	(14,622)

The net cash outflow also includes a £2.5 million outflow (December 2003: £5.9 million) relating to exceptional items charged during the year (see note 4).

(b) Financing and management of liquid resources

	2004 £'000	2003 *Restated* £'000
Management of liquid resources		
New cash deposits	**(13,532)**	(18,851)
Repayment of cash deposits	**7,089**	27,362
	(6,443)	8,511
Financing		
New loans	**61,157**	–
Repayment of loans	**(1,563)**	(1,219)
Payment of principal under finance leases	**(7,727)**	(6,240)
Debt issue costs	**(4,684)**	–
Issue of equity shares	**125,832**	53,255
Issue costs on shares issued	**(3,624)**	(1,846)
Sale of own shares held by ESOP	**2,074**	3,666
Issue of shares to minorities	**84**	–
	171,549	47,616

The restatement of 2003 results is due to the adoption of UITF 38 'Accounting for ESOP Trusts' (see note 18).

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

	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year	**(12,568)**	35,350
Cash (inflow)/outflow from changes in borrowings and finance leases	**(51,867)**	7,710
Cash outflow/(inflow) from changes in liquid resources	**6,443**	(8,511)
Change in net funds resulting from cash flows	**(57,992)**	34,549
Acquisitions and disposals	**5,076**	(710)
Other non-cash:		
New finance leases	**(4,194)**	–
Exchange rate movement on loans	**3,909**	1,910
Movement in net funds in the year	**(53,201)**	35,749
Net funds at 1 January	**58,133**	22,384
Net funds at 31 December	**4,932**	58,133

Notes to the Accounts continued

19 CONSOLIDATED CASH FLOW STATEMENT CONTINUED

(d) Analysis of changes in net funds

	At 1 January 2004 £'000	Cashflow £'000	Acquisitions and disposals £'000	Exchange rate movements £'000	Other non-cash £'000	**At 31 December 2004 £'000**
Cash at bank and in hand	64,105	(13,000)	–	(1,024)	–	**50,081**
Overdrafts	(862)	432	–	43	–	**(387)**
	63,243	(12,568)	–	(981)	–	**49,694**
Debt due after one year	(6,019)	(59,659)	–	4,107	5,764	**(55,807)**
Debt due within one year	(2,338)	65	(6)	95	(5,764)	**(7,948)**
Finance leases due after one year	(10,962)	610	–	456	3,955	**(5,941)**
Finance leases due within one year	(6,687)	7,117	(3)	413	(8,149)	**(7,309)**
	(26,006)	(51,867)	(9)	5,071	(4,194)	**(77,005)**
Liquid resources	20,896	6,443	5,085	(181)	–	**32,243**
	58,133	**(57,992)**	**5,076**	**3,909**	**(4,194)**	**4,932**

Cash at bank and in hand represents free cash.

Liquid resources at 31 December 2004 include cash held on deposit of which £2.7 million (December 2003: £3.6 million) relates to collateral against bank loans; £13.5 million (December 2003: £16.6 million) relates to deposits which are held by banks and landlords as security against lease commitments by Regus operating companies; £14.1 million (December 2003: £0.7 million) relates to deposits with a maturity of less than one month and £1.9 million (December 2003: £nil) held by the ESOP Trust. Of the £32.2 million, £18.1 million is blocked and not available for use by the business.

Other non-cash items comprise new finance leases and movements between categories.

20 FINANCIAL INSTRUMENTS

The objectives, policies and strategies applied by the Group with respect to financial instruments are determined at Group level. The principal financial instruments used by the Group to finance its operations are cash and loans. During 2004, certain financial instruments were utilised to hedge the foreign exchange risk associated with the acquisition of HQ Global Holdings Inc. These had all expired by 31 December 2004.

No transactions of a speculative nature are undertaken.

Historically the Group has occasionally used derivative financial instruments to hedge its exposure to foreign currency and interest rate fluctuations, although natural hedges limit the exposure to these risks.

The Group's debt is held at variable interest rates because early repayment of the debt is probable. Surplus cash balances are invested to achieve maximum interest returns on a day to day basis. The majority of the Group's net assets are in US dollars and euros, and the Group limits the translation exposure and resulting impact on shareholders' funds by borrowing in US dollars. The Group does not hedge the translation effect of exchange rate movements on the profit and loss account.

The Group's exposure to currency risk at a transactional level is minimal as the majority of day today transactions of overseas subsidiaries are carried out in local currency.

(a) Interest rate risk and currency profile of financial assets as at 31 December 2004

The following table analyses the currency and interest rate composition of the Group's financial assets.

	Total £'000	Interest free £'000	Floating rates £'000
Financial assets as at 31 December 2004			
Sterling	**22,644**	**–**	**22,644**
Euro	**26,269**	**4,009**	**22,260**
US dollar	**22,376**	**1,894**	**20,482**
Others	**11,035**	**1,473**	**9,562**
	82,324	**7,376**	**74,948**
Financial assets as at 31 December 2003			
Sterling	54,784	–	54,784
Euro	17,371	3,136	14,235
US dollar	5,554	991	4,563
Other	7,292	1,158	6,134
	85,001	5,285	79,716

20 FINANCIAL INSTRUMENTS CONTINUED

The financial assets of the Group comprise:

	2004 £'000	2003 £'000
Cash	**50,081**	64,105
Liquid resources	**32,243**	20,896
Total financial assets	**82,324**	85,001

The floating rate financial assets comprise primarily cash and short term deposits earning interest at commercial rates relevant to each functional currency.

The following table analyses the currency and interest rate composition of the Group's financial liabilities.

				Fixed rate financial liabilities	
	Total £'000	Floating rates £'000	Fixed rates £'000	Weighted average fixed interest rate %	Weighted average average period years
Financial liabilities as at 31 December 2004					
Sterling	**(5,000)**	**(5,000)**	**–**		
Euro	**(2,941)**	**(1,038)**	**(1,903)**	**7.1**	**1.5**
US dollar	**(66,676)**	**(55,695)**	**(10,981)**	**8.9**	**1.2**
Others	**(2,775)**	**(2,409)**	**(366)**	**9.9**	**1.1**
	(77,392)	**(64,142)**	**(13,250)**		
Financial liabilities as at 31 December 2003					
Sterling	(8,218)	(5,000)	(3,218)		
Euro	(1,278)	(1,278)	–	7.7	1.9
US dollar	(13,691)	–	(13,691)	8.8	1.2
Other	(3,681)	(2,941)	(740)	11.0	2.3
	(26,868)	(9,219)	(17,649)		

The financial liabilities of the Group comprise:

	2004 £'000	2003 £'000
Debt – US dollars floating rate	**55,691**	–
Bank loans and overdrafts	**1,976**	2,507
Other loans	**6,475**	6,712
Finance leases	**13,250**	17,649
Total financial liabilities	**77,392**	26,868

	2004 £'000	2003 £'000
Maturity profile of financial liabilities at 31 December		
Within one year or on demand	**15,644**	9,887
In more than one year but not more than two years	**11,087**	6,379
In more than two years but not more than five years	**36,941**	5,190
After more than five years	**13,720**	5,412
	77,392	26,868

The floating rate financial liabilities are at rates which fluctuate mainly dependent on LIBOR. The average year end interest rate for such borrowings was 8.2% (2003: 7.6%).

The average year end interest rate on gross borrowings is 8.2% (2003: 8.3%).

It is the Group's risk management policy not to hedge the interest expense arising from the borrowing of its $110.0 million six year term debt.

Notes to the Accounts continued

20 FINANCIAL INSTRUMENTS CONTINUED

Fair value disclosures

	2004 Book value £'000	2004 Fair value £'000	2003 Book value £'000	2003 Fair value £'000
Primary financial instruments held to finance the Group's operations				
Short-term borrowings	**(15,644)**	**(14,691)**	(9,887)	(9,015)
Long-term borrowings	**(61,748)**	**(60,029)**	(16,981)	(13,681)
Short-term deposits	**32,243**	**32,243**	20,896	20,896
Cash at bank and in hand	**50,081**	**50,081**	64,105	64,105
	4,932	**7,604**	58,133	62,305

Summary of methods and assumptions

Short-term deposits and borrowings

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

Long-term borrowings

The fair value of bank loans and other loans approximates to the carrying value because the majority are floating rate where payments are reset to market rates at intervals of less than one year.

Gains and losses on hedges

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

(b) Undrawn committed borrowing facilities

	Principle £m	Available £m
Committed facilities at 31 December 2004:	**76**	**13**
Committed facilities at 31 December 2003:	–	–

Principal committed facilities include $132.0 million of senior credit facilities which were entered into in 2004, of which $25.0 million is available.

(c) Foreign currency exposure as at 31 December 2004

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

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

	Net foreign currency monetary assets/(liabilities)				
	Euro £'000	Sterling £'000	US dollar £'000	Others £'000	Total £'000
31 December 2004					
Functional currency of Group operation					
Euro	**–**	**1,959**	**589**	**492**	**3,040**
Sterling	**(4,218)**	**–**	**(1,821)**	**(3,692)**	**(9,731)**
US dollar	**–**	**(35)**	**–**	**725**	**690**
Others	**(137)**	**(48)**	**(3,965)**	**834**	**(3,316)**
	(4,355)	**1,876**	**(5,197)**	**(1,641)**	**(9,317)**
31 December 2003					
Functional currency of Group operation					
Euro	–	(6,462)	(2)	4,765	(1,699)
Sterling	(8,267)	–	(1)	(3,705)	(11,973)
US dollar	3	(5,301)	–	(186)	(5,484)
Others	(132)	(5,674)	(4,650)	(3,319)	(13,775)
	(8,396)	(17,437)	(4,653)	(2,445)	(32,931)

21 SHARE OPTIONS

During 2004 the Group established the Regus Group Share Option Plan.

The table below presents for the Regus Group Share Option Plan the options outstanding and their exercise price together with an analysis of the movements in the number of options during the year.

As a result of the Scheme of Arrangement all options issued prior to December 2003 lapsed.

	Date of grant	Numbers granted	Weighted average exercise price per share p	Lapsed	At 31 December 2004	Exercisable from	Expiry date
Award Type							
The Regus Group Share Option Plan	23/07/2004	4,106,981	57.00	–	4,106,981	23/07/2007	23/07/2014
	8/09/2004	3,884,170	64.75	(729,227)	3,154,943	8/09/2007	8/09/2014
Total		**7,991,151**		**(729,227)**	**7,261,924**		

Performance conditions

The Regus Group Share Option Plan includes certain performance criteria that need to be met in order for share options to vest. A proportion of the share options vest as shown below should the basic earnings per share, adjusted for exceptional items and goodwill and intangible amortisation exceed targets linked to the Retail Price Index. The basic earnings per share is 1p at 31 December 2003.

Target over performance period	Portion of share options vested
RPI	20%
RPI + 3%	40%
RPI + 4%	60%
RPI + 5%	80%
RPI + 6%	100%

22 ACQUISITIONS

The acquisition and results of acquired businesses are included in the consolidated accounts from their respective date of acquisition. The following tables set out the effect of the material acquisitions of the Group companies in the year to 31 December 2004. Acquisition accounting has been applied in all cases. The fair values currently established for all acquisitions made in the year to 31 December 2004 are provisional and will be reviewed based on additional information up to 31 December 2005. The Directors do not believe that any net adjustments resulting from such a review would have a material effect on the Group. The goodwill arising on these acquisitions has been capitalised and is being amortised over 20 years.

Acquisition of HQ Global Holdings Inc (HQ)

On 20 August 2004, the Group acquired HQ Global Holdings Inc., a company incorporated in the USA. Total consideration for the acquisition was £173.5 million after accounting for expenses and professional fees.

The net assets of HQ on acquisition and the provisional fair values were as follows:

		Adjustments:		
	Book values of acquired business £'000	To align accounting policies £'000	Revaluations £'000	Fair values at date of acquisition £'000
Intangible assets – Brand [a]	–	–	36,753	36,753
Tangible fixed assets [b]	44,436	–	(3,647)	40,789
Working capital [c] and [d]	(20,858)	(79)	(1,285)	(22,222)
Current and deferred tax	(2,048)	–	–	(2,048)
Cash and overdrafts	10,758	–	–	10,758
Short term deposits	5,105	–	–	5,105
Bank loans and finance leases	(9)	–	–	(9)
Net assets acquired	**37,384**	**(79)**	**31,821**	**69,126**
Consideration				
Cash (including costs of £5.0 million)				173,502
Goodwill				**104,376**

All consideration was paid in cash. There is no deferred consideration.

The accounting policy and fair value adjustments include:

(a) An independent valuation of the HQ brand name was conducted at the date of acquisition. "Relief from Royalty" approach was used as the valuation method. Under this method the fair value is equal to the present value of attributed royalty income which is equal to the amount saved through the avoidance of royalty payments in perpetuity. A 3% royalty rate and 15% weighted average cost of capital was used for the valuation.

(b) The valuation of property, plant and equipment was based on a cost and market valuation approach resulting in a fair value adjustment of £3.6 million.

(c) Incremental provision of £0.1 million was required to align HQ bad debt provision to Regus Group policy.

(d) Leasehold interest valuations were based on the difference between contract rent and market rent over the lease term discounted to net present value at a weighted average cost of 15%.

Notes to the Accounts
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22 ACQUISITIONS CONTINUED

Summary results of HQ Global Holdings Inc prior to acquisition

Set out below are summary profit and loss accounts of HQ Global Holdings Inc. The pre acquisition period has been prepared under UK GAAP using HQ accounting policies, translated into sterling using the average rates for the respective period.

	1 January 2004 to 19 August 2004 £'000	20 August 2004 to 31 December 2004 £'000	Total £'000
Sales	97,816	55,669	153,485
Operating expenses	(96,797)	(52,306)	(149,103)
Operating profit	1,019	3,363	4,382
Interest	(789)	36	(753)
Profit before tax	230	3,399	3,629
Tax	–	–	–
Profit attributable to HQ ordinary shares	230	3,399	3,629

HQ contributed £3.4 million to the Group's net operating cash flows and paid £1.8 million for capital expenditure.

There were no other recognised gains and losses other than those recognised in the profit and loss account.

Acquisition of Interlink Business Plaza – Korea

On 6 August 2004, the Group acquired Interlink Business Plaza in Korea for £244,000 comprising £42,000 fixed assets and the balance being goodwill. There have been no material fair value adjustments.

23 CAPITAL COMMITMENTS

	Group	
	2004 £'000	2003 £'000
Contracts placed for future capital expenditure not provided in the financial statements	**675**	–

These commitments are in respect of fit out obligations on new centres opening in 2005. In addition our 42% share of the UK associate capital commitments amounted to £0.6 million at 31 December. The Company had no capital commitments at 31 December 2004 (2003: £nil).

24 OPERATING LEASE COMMITMENTS

At 31 December 2004 the Group was committed to make the following payments in respect of operating leases.

	2004			2003		
	Property £'000	**Motor vehicles, plant and equipment £'000**	**Total £'000**	Property £'000	Motor vehicles, plant and equipment £'000	Total £'000
Leases which expire:						
Within one year	**15,132**	**1,743**	**16,875**	5,127	1,935	7,062
Between two and five years	**104,027**	**4,752**	**108,779**	59,806	5,865	65,671
After five years	**54,317**	**23**	**54,340**	42,617	67	42,684
	173,476	**6,518**	**179,994**	107,550	7,867	115,417

At 31 December 2004, the Company had no annual commitments under operating leases (2003: £nil).

25 CONTINGENT LIABILITIES

The Group has bank guarantees and letters of credit held with certain banks totalling £22.9 million (2003: £17.2 million), the Group acts as a guarantor for certain lease obligations of its UK associate.

26 RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004 the Group received management fees of £3.7 million (2003: £5.6 million) from its joint venture entities and UK associate. Regus rented office space from its associate incurring costs of £0.2 million (2003: £0.3 million). At 31 December 2004, £5.8 million (2003: £3.8 million) was due to the Group from the joint ventures and associate of which £0.8 million of this debt has been provided for at 31 December 2004. At 31 December 2004 Regus had outstanding a loan from its associate amounting to £5.0 million (2003: £5.0 million). It incurred interest of £0.4 million (2003: £0.4 million) on the loan during the year.

Five Year Summary

Profit and loss data:

	31 December 2000 £m	31 December 2001 £m	31 December 2002 £m	31 December 2003 £m	**31 December 2004 £m**
Turnover (including share of joint ventures and associate)	429.2	524.6	445.4	324.9	**383.4**
Less: Share of turnover of – joint ventures	(8.1)	(12.0)	(9.8)	(5.5)	**(5.5)**
– associate	–	–	–	(62.8)	**(65.7)**
Turnover	421.1	512.6	435.6	256.6	**312.2**
Cost of sales (centre costs) before exceptional items	(320.8)	(434.7)	(413.3)	(239.7)	**(261.0)**
Exceptional items	–	(38.0)	(57.0)	–	**(6.6)**
	(320.8)	(472.7)	(470.3)	(239.7)	**(267.6)**
Gross profit (centre contribution)	100.3	39.9	(34.7)	16.9	**44.6**
Administration expenses before exceptional items	(86.9)	(91.3)	(61.1)	(38.7)	**(43.9)**
Exceptional items	(9.5)	(11.1)	(35.1)	(6.4)	**(2.0)**
Goodwill amortisation	–	–	–	–	**(2.0)**
Administration expenses after exceptional items	(96.4)	(102.4)	(96.2)	(45.1)	**(47.9)**
Group operating profit/(loss)	3.9	(62.5)	(130.9)	(28.2)	**(3.3)**
Share of operating loss in – joint ventures	(1.0)	(5.6)	(5.5)	(0.2)	**(0.6)**
– associate	–	–	–	(3.7)	**(2.7)**
Total operating profit/(loss)	2.9	(68.1)	(136.4)	(32.1)	**(6.6)**
Profit on sale of subsidiaries	–	–	22.7	6.6	**0.1**
Profit/(loss) on ordinary activities before interest	2.9	(68.1)	(113.7)	(25.5)	**(6.5)**
Net interest payable and similar charges	(6.8)	(0.6)	(5.4)	(4.4)	**(2.2)**
Loss on ordinary activities before tax	(3.9)	(68.7)	(119.1)	(29.9)	**(8.7)**
Tax (charge)/credit on loss on ordinary activities	(9.9)	(10.1)	(5.5)	2.1	**2.9**
Loss on ordinary activities after tax	(13.8)	(78.8)	(124.6)	(27.8)	**(5.8)**
Minority interests	0.3	1.9	1.2	0.9	**0.4**
Retained loss for the financial year	(13.5)	(76.9)	(123.4)	(26.9)	**(5.4)**
Loss per ordinary share:					
Basic and diluted (p)	(2.7p)	(13.6p)	(21.9p)	(4.7p)	**(0.6p)**
Weighted average number of shares outstanding (thousands)	497,889	563,528	564,052	574,805	**859,702**
Balance sheet data (as at 31 December)					
Intangible assets	–	–	–	–	**129.5**
Tangible assets and investments	197.6	247.7	106.3	75.5	**84.3**
Cash	169.8	117.1	58.6	85.0	**82.3**
Total assets	497.4	482.5	224.2	222.8	**376.5**
Creditors: falling due within one year	(317.9)	(344.4)	(149.3)	(134.2)	**(167.4)**
Creditors: falling due after more than one year	(23.1)	(24.8)	(50.1)	(34.2)	**(78.3)**
Provisions	(0.8)	(28.3)	(57.2)	(52.6)	**(21.9)**
Equity minority interests	0.4	(0.4)	0.2	1.1	**1.3**
Equity shareholders funds'/(deficit)	156.1	84.6	(32.2)	2.9	**110.3**

The five year summary reflects the reported results of the Group. No adjustment has been made to adjust for the disposal of the UK business in 2002 and prior years. The financial performance and position for 2004 includes the results for and position of HQ Global Holdings inc, since its acquisition on 20 August 2004. These financials have been adjusted for UITF 38.

Principal Group Companies

The Company's principal subsidiaries at 31 December 2004, their principal activities and country of incorporation are set out below:

Name of subsidiary	Country of incorporation	Principal activity	% of equity and votes held
Regus Business Centre SA	Argentina	Trading	100
Regus Centres Pty Ltd (a)	Australia	Trading	100
Regus Clarence Street Pty Ltd	Australia	Trading	100
Regus Business Centre GmbH	Austria	Trading	100
Regus Belgium NV	Belgium	Trading	100
Skyport Bruxelles NV	Belgium	Trading	100
Regus Business Centre NV	Belgium	Trading	100
Regus Do Brasil Ltda	Brazil	Trading	100
Regus Canadian Holding Corporation	Canada	Trading	100
Regus Business Centre Ltd	Canada	Trading	100
Regus Business Centres Canada Ltd Partnership	Canada	Trading	59
Regus Columbia Ltda	Columbia	Trading	100
Regus Business Centre Chile Ltda	Chile	Trading	100
Regus Business Centre (Shanghai) Ltd (a)	China	Trading	100
Regus Business Service Co Ltd	China	Trading	100
Regus Business Services (Shanghai) Ltd (a)	China	Trading	100
Regus Business Centre sro (a)	Czech Republic	Trading	100
Regus South Harbour Aps	Denmark	Trading	100
Regus Holding Denmark A/S	Denmark	Holding	100
Regus Kobenhavn Aps	Denmark	Trading	100
Regus Tuborg A/S	Denmark	Trading	100
Regus Business Centre LLC (Egypt)	Egypt	Trading	100
Regus Business Centres (Holdings)	England	Trading	100
Regus Management Ltd (a)	England	Management	100
Regus Investments Ltd	England	Holding	100
Regus Limited (a)	England	Holding	100
Regus H Holdings Ltd	England	Holding	100
Regus H	England	Holding	100
HQ Merc (UK) Management Limited	England	Trading	100
HQ Merc (UK) Partnership Limited	England	Trading	100
Regus Finland Oy	Finland	Trading	100
Regus Roissy SA (a)	France	Trading	100
Regus Paris SA (a)	France	Trading	100
Regus GmbH & Co KG (a)	Germany	Trading	100
RBC Deutschland GmbH (a)	Germany	Trading	100
Regus Verwaltungs GmbH (a)	Germany	Trading	100
Regus Hellas SA	Greece	Trading	100
Regus Business Centre Ltd (a)	Hong Kong	Trading	100
Regus Kft	Hungary	Trading	100
Regus Business Centre Private Ltd	India	Trading	100
Europa Business Centre Ltd	Ireland	Trading	100
Regus Ireland Ltd (a)	Ireland	Trading	100
Regus Franchise International Ltd	Ireland	Trading	100
Regus Business Centre Ltd	Israel	Trading	100
Regus Business Centre Srl	Italy	Trading	100
Regus Business Centres Italia SpA	Italy	Trading	65
Regus Japan KK	Japan	Trading	100
Regus Korea Ltd (a)	South Korea	Trading	100
Regus Luxembourg SA	Luxembourg	Trading	100
Regus Centres Sdn Bhd	Malaysia	Trading	100
Regus Business Centre SA de CV	Mexico	Trading	100
Regus Services SA de CV	Mexico	Trading	100
Regus Maroc SARL	Morocco	Trading	100
Regus Amsterdam BV (a)	Netherlands	Trading	100
Regus Business Centre BV	Netherlands	Holding	100
Regus International Holdings BV (b)	Netherlands	Trading	60
Satellite Business Centre Schiphol BV	Netherlands	Trading	100
Skyport International BV	Netherlands	Trading	100
Skyport Amsterdam BV	Netherlands	Trading	100

Name of subsidiary	Country of incorporation	Principal activity	% of equity and votes held
Regus Business Centre Ibsen AS	Norway	Trading	100
Regus Business Centre Skoyen AS	Norway	Trading	100
Regus Business Centre Nydalen AS	Norway	Trading	100
Regus Business Centre Norge AS (a)	Norway	Trading	100
Regus Business Centre (Panama) SA	Panama	Trading	100
Regus Business Centre (Peru) SA	Peru	Trading	100
Regus Business Centres Inc	Philippines	Trading	100
Regus Business Centre SP zoo (a)	Poland	Trading	100
Regus Business Centre Lda	Portugal	Trading	100
LLC Regus Business Centre	Russia	Trading	100
Regus Business Centre Avrora LLC (a)	Russia	Trading	100
Regus Centres Pte Ltd	Singapore	Trading	100
Regus Business Services Marina Pte Ltd	Singapore	Trading	100
Regus Business Centre Bratislava sro (a)	Slovakia	Trading	100
Regus Business Centre SA (a)	Spain	Trading	100
Business Centre Gothenburg AB	Sweden	Trading	100
Business Centre Stockholm AB (a)	Sweden	Trading	100
Business Centre Sweden AB	Sweden	Trading	100
Regus Business Centre (S) SA	Switzerland	Trading	100
Regus Centres (Thailand) Ltd (a)	Thailand	Trading	100
Regus Tunisie SARL	Tunisia	Trading	100
Regus Is Merkezi Isletmeciligi Ltd Sirketi	Turkey	Trading	100
Regus Business Centres (a)	Ukraine	Trading	100
Regus International Services SA	Uruguay	Trading	100
Regus International Services LLC	USA	Trading	100
Regus Corporation (a)	USA	Holding	100
Regus Southeast Investments LLC	USA	Trading	100
Regus H Holdings Corporation	USA	Holding	100
Regus Business Centre Corp	USA	Trading	100
Regus Equity Business Centres LLC	USA	Trading	50
Regus Business Centre Latin Corp	USA	Management	100
Stratis Business Centres Inc	USA	Trading	100
HQ Global Holdings Inc	USA	Holding	100
HQ Global Workplaces Inc	USA	Holding	100
HQ Subsidiaries LLC	USA	Holding	100
HQ Network Systems Inc	USA	Holding	100
Regus Business Centre Venezuela CA	Venezuela	Trading	100
Regus Centre (Vietnam) Ltd	Vietnam	Holding	100

(a) Shares held directly by Regus Group plc.

Investments in Group subsidiaries are held at cost all of which are included within the consolidated results. The principal activity of all trading companies is the provision of fully serviced business centres.

(b) Our South African business operates as a branch of this company.

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