Regus Business Centres (UK) Limited

Directors' report and financial statements

Registered number 2961188

31 December 2003

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities and business review

The company's principal activity is the provision of serviced offices and related services.

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend (2002: £nil). The retained profit for the year of £1,977,000 *(2002: £4,136,000)* has been transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

MLJ Dixon	
RJG Lobo	(resigned 28 January 2003)
SA Stamp	(resigned 28 January 2003)
DS Ford	(appointed 23 January 2003)
MP Bennett	(appointed 23 January 2003, resigned 25 July 2003)
BN McDonnell	(appointed 25 July 2003)

The interests of M L J Dixon in the ordinary shares of Regus plc are disclosed in the directors' report of that company.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of any group company.

Employees

It is the company's policy to communicate with all employees and to encourage them to take a wider interest in the affairs of the company and the Regus UK Group. This is done in a variety of ways including electronic media, in house journals, bulletins and briefing sessions.

The health and safety of employees is of paramount importance. Safety awareness is actively promoted in the working environment and is reviewed from time to time, in the light of good practice and developing legislation.

The company is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, nationality, sex, age, marital status or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the company's businesses. These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. Where an employee becomes disabled whilst employed by the company every effort is made to allow that person to continue in employment.

The number of employees and their remuneration are set out in note 6 to the financial statements.

Directors' report *(continued)*

Political contributions and charitable donations

The company made no political or charitable contributions in either 2003 or 2002.

Payment of creditors

It is the policy of the company to agree terms of payment for its business transactions with its suppliers. Payment is then made in accordance with these, subject to the terms and conditions being met by the supplier. The company does not follow any code or standard on payment practice. Trade creditor days, based on cost of sales, at 31 December 2003 are 22 *(2002: 38)*.

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.

By order of the Board

BN McDonnell

BN McDonnell
Secretary

3000 Hillswood Drive
Chertsey
Surrey
KT16 0RS
31 August 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give, in accordance with applicable UK law and accounting standards, a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to prevent and detect fraud and other irregularities.

kpmg

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the independent auditors to the members of Regus Business Centres (UK) Limited

We have audited the financial statements on pages 5 to 16.

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 directors' report and, as described on page 3, 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 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 are 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 company is not disclosed.

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. 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 company'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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

31 August 2004

Profit and loss account
for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover	*1*	**50,514**	52,560
Cost of sales		**(48,629)**	(45,332)
Gross profit		**1,885**	7,228
Administrative expenses		**(465)**	(72)
Management Fees		**-**	(1,146)
Operating profit	*2*	**1,420**	6,010
Interest receivable	*3*	**1**	-
Interest payable and similar charges	*4*	**(27)**	(102)
Profit on ordinary activities before taxation		**1,394**	5,908
Tax on profit on ordinary activities	*5*	**583**	(1,772)
Profit for the financial year	*15*	**1,977**	4,136

All amounts are derived from continuing activities.

There were no gains and losses for the current or previous year other than those shown above.

There is no difference between the profits for the current or previous year and their historical cost equivalents.

The notes on pages 8 to 16 form part of these financial statements.

Balance sheet
at 31 December 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Tangible assets	7		28,430		33,015
Investments	8		-		-
			28,430		33,015
Current assets					
Debtors	9	24,249		29,680	
Cash in bank and in hand		1,249		1,443	
		25,498		31,123	
Creditors: amounts falling due within one year	10	(29,997)		(41,354)	
Net current liabilities			(4,499)		(10,231)
Total assets less current liabilities			23,931		22,784
Creditors: amounts falling due after more than one year	11		(25,836)		(25,833)
Provisions for liabilities and charges	12		(1,062)		(1,895)
Net liabilities			(2,967)		(4,944)
Capital and reserves					
Called up share capital	14		-		-
Profit and loss account	15		(2,967)		(4,944)
Equity shareholders' deficit			(2,967)		(4,944)

These financial statements were approved by the board of directors on 31 August 2004 and were signed on its behalf by:

Director

DS Ford

Statement of total recognised gains and losses
for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	1,977	4,136
Total recognised gains and losses relating to the financial year	1,977	4,136
Prior year adjustment (as explained in note 1)	-	(1,263)
Total gains and losses recognised since last annual report	1,977	2,873

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2003

	2003 £000	2002 £000
Profit for the financial year	1,977	4,136
Shareholders' deficit at beginning of year (2002 – originally £(7,817,000) restated for prior year adjustment of £1,263,000)	(4,944)	(9,080)
Shareholders' deficit at end of the year	(2,967)	(4,944)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items, which are considered material in relation to the company's financial statements except as noted below. The company adopted FRS 19 'Deferred tax' in the prior year. The effect of adopting FRS 19 in the prior year, as set out in the taxation note below, was to decrease profits by £382,000 and to decrease shareholders' funds by £1,645,000.

Basis of preparation

The financial statements have been prepared under the historical cost accounting rules in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Regus Holdings (UK) Limited. Regus Holdings (UK) Limited has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Related party transactions

As the company is a wholly owned subsidiary of Regus Holdings (UK) Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Cash flow statement

In accordance with FRS1, a cash flow statement has not been prepared on the grounds that the company was a wholly owned subsidiary undertaking of Regus Holdings (UK) Limited for all of the year and its cash flows are included within the consolidated cash flow statement of that company.

Turnover

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

Centre income is invoiced two months in advance and is deferred until the month in which the services are provided.

Income for other services supplied to clients using centres is charged and recognised in the month in which the related services are provided.

Services are deemed to have been delivered to customers when, and to the extent that, the entity has met its obligations under its services contract.

Start-up costs

Start-up costs (including formation costs, costs related to finding property and any other centre opening costs) are charged to the profit and loss account as they are incurred.

Refurbishment

The terms of most building leases require the company to make good dilapidation or other damage occurring during the rental period. Due to the nature of the business, centres are maintained to a high standard. Accruals for dilapidations are only made when it is known that a dilapidation has occurred.

Notes *(continued)*

ii) **Accounting policies** *(continued)*

Tangible fixed assets and depreciation

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

Furniture, telephone & office equipment	- 5 years
Other fixtures and fittings	- Shorter of the lease term, the first break point of the building lease or 10 years
Computers	- 3 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Stocks relate to items purchased for resale to customers and to items intended for distribution within the business such as office supplies and marketing materials. Provision is made for any deterioration in net realisable value as a result of obsolescence or damage.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pensions

Regus (UK) Limited operates defined contribution schemes. Contributions are charged to the profit and loss account on an accruals basis.

Leases

ii) **Finance leases**

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

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

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

Notes *(continued)*

ii) **Accounting policies** *(continued)*

ii) **Building leases**

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

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

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

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

2 Operating profit

		2003	2002
		£000	£000
Operating profit is stated after charging:			
Depreciation of tangible fixed assets		**6,736**	6,306
Amounts paid under operating leases:			
	Property	**21,398**	20,532
	Other assets	**333**	261
Auditors' remuneration:	As auditors	**26**	37
	Other work	**4**	5
Exceptional items		**(250)**	(721)
Management fees		**-**	1,146

Included in the results for the year were exceptional pre-tax credits totalling £250,000 (2002: £721,000). These related to release of mothballing provisions established in previous years

3 Interest receivable

	2003	2002
	£000	£000
Bank interest	**1**	-
	1	-

Notes *(continued)*

4 Interest payable and similar charges

	2003 £000	2002 £000
Finance charges payable in respect of finance leases and hire purchase contracts	-	18
Other interest	27	84
	27	102

5 Tax on profit on ordinary activities

Analysis of (credit) / charge in year:

	2003 £000	2002 £000
UK corporation tax		
Current tax on income for the year	-	1,390
Total current tax	-	1,390
Deferred tax (see note 12)	(583)	382
Tax on profit on ordinary activities	(583)	1,772

Factors affecting the tax charge for the current year:

	2003 £000	2002 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,394	5,908
Current tax at 30% (2002: 30%)	419	1,772
Effects of:		
Expenses not deductible for tax purposes	273	-
Capital allowances for period in excess of depreciation	(494)	(166)
Utilisation of tax losses	-	(216)
Group relief	(198)	-
Total current tax charge (see above)	-	1,390

No deferred tax asset has been recognised on the grounds that the directors do not currently consider it more likely than not that these losses will be relieved.

Notes *(continued)*

6 Remuneration of the directors, staff numbers and costs

Directors' remuneration

The directors are executives of the immediate parent company, Regus Holdings UK Limited, and are also directors of other subsidiaries of Regus Holdings UK Limited. The directors received total emoluments of £269,000 during the year, but it is not practicable to allocate this between their services as executives of Regus Holdings UK Limited and their services as directors of these subsidiaries. In addition, the directors are each accruing benefits under the group pension scheme, which is a defined contribution scheme, in respect of their services to the group companies.

Staff numbers and costs

The average number of persons employed by the company during the year, excluding directors, analysed by category, was as follows:

	2003 Number	2002 Number
Operations	**134**	129

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	**2,368**	2,458
Social security costs	**239**	209
Other pension costs	**20**	27
	2,627	2,694

7 Tangible fixed assets

	Computer equipment *£000*	**Fixtures and fittings *£000***	**Total *£000***
Cost			
At beginning of the year	1,204	45,947	47,151
Additions	69	2,082	2,151
At end of the year	1,273	48,029	49,302
Depreciation			
At beginning of the year	820	13,316	14,136
Charge for year	337	6,399	6,736
At end of the year	1,157	19,715	20,872
Net book value			
At 31 December 2003	**116**	**28,314**	**28,430**
At 31 December 2002	384	32,631	33,015

Notes *(continued)*

7 Tangible fixed assets *(continued)*

Included in the total net book value of tangible fixed assets is £Nil *(2002: £18,000)* in respect of assets held under finance leases.

8 Fixed asset investments

The company has an investment of £5,000 representing 50% of the ordinary share capital of Park Business Centres Limited, a company involved in the provision of serviced office accommodation. The company's investment is fully provided.

9 Debtors

	2003 £000	2002 £000
Amounts falling due within one year:		
Trade debtors	**7,909**	8,495
Amounts owed by fellow subsidiary undertakings	**4,571**	11,842
Amounts owed by joint venture (note 16)	**100**	-
Other debtors	**35**	90
Prepayments and accrued income	**7,235**	6,253
	19,850	26,680
Amounts falling due after one year:		
Amounts owed by joint venture (note 16)	**4,399**	3,000
	24,249	29,680

10 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Bank loans and overdrafts	-	1,477
Obligations under finance leases and hire purchase agreements	-	5
Trade creditors	**2,911**	4,709
Customer deposits	**6,645**	7,078
Amounts owed to parent and fellow subsidiary undertakings	**1,068**	1,335
Amounts owed to joint venture (note 16)	-	45
Corporation Tax	**1,390**	1,390
Taxation and social security	**333**	1,214
Accruals and deferred income	**17,650**	24,101
	29,997	41,354

Notes *(continued)*

11 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Amounts owed to parent and fellow subsidiary undertakings	**25,836**	25,833
	25,836	25,833

12 Provisions for liabilities and charges

	Deferred tax £000	Onerous lease obligation £000	Total £000
At beginning of the year	1,645	250	1,895
Adjustments to deferred tax in respect of prior periods	(1,077)		
Charge / (credit) to the profit and loss for the year	494	(250)	(833)
At end of the year	1,062	-	1,062

Deferred tax relates to accelerated capital allowances of £1,062,000 (2002: £1,826,000) and other temporary timing differences of £nil (2002: (£181,000)).

13 *Commitments*

Capital commitments contracted at the end of the financial year for which no provision has been made amounted to £139,000 *(2002: £24,000)*. These relate to capital expenditure across a number of centres with the most significant cost being centre fit-out works.

Annual commitments in respect of property, vehicles, plant and equipment under non-cancellable operating leases are as follows:

	Property £000	Vehicle, plant and equipment £000	2003 Total £000	2002 Total £000
Operating leases which expire:				
Within one year	**306**	**23**	**329**	3
Within two to five years	**475**	**109**	**584**	155
After five years	**22,640**	**1**	**22,641**	20,941
	23,421	**133**	**23,554**	21,099

Notes *(continued)*

14 Called up share capital

	2003 £	2002 £
Authorised		
100 Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	**100**	100

15 Profit and loss account

	2003 £000	2002 £000
At beginning of the year (2002 - originally £(7,817,000) restated for prior year adjustment of £1,263,000)	**(4,944)**	(9,080)
Retained profit for year	**1,977**	4,136
At end of the year	**(2,967)**	(4,944)

16 Related party transactions

During the year, the company entered into the following transactions with Park Business Centres Limited, a 50% joint venture.

	2003 £000	2002 £000
Trading account		
Balance (payable)/receivable at start of the year	**(45)**	504
Expenses charged/(incurred) in the year	**145**	(549)
Receivable/(payable) at end of year (note 9 / 10)	**100**	(45)
Loan balance		
Balance receivable at start of year	**3,000**	3,000
Amount loaned in year	**1,399**	-
Balance receivable at end of year (note 9)	**4,399**	3,000

No interest has been charged in the year so as to prevent increasing the losses already suffered by the joint venture.

Notes *(continued)*

17 Ultimate parent company and controlling party

The entire issued share capital of this company is owned by Regus Holdings (UK) Limited, a company incorporated in Great Britain and registered in England and Wales. 58% of the issued share capital of Regus Holdings (UK) Limited is held by Rex 2002 Limited. The ultimate parent undertaking is Alchemy Partners Nominees Limited whose shares are held on behalf of investors in the Alchemy Investment Plan. The Alchemy Investment Plan is managed by Alchemy Partners (Guernsey) Limited.

The smallest group in which the results of the company are consolidated is that headed by Regus Holdings (UK) Limited.

The consolidated accounts of this group are available to the public and may be obtained from Regus Holdings (UK) Limited, 3000 Hillswood Drive, Hillswood Business Park, Chertsey KT16 0RS.

The largest group in which the results of the company are consolidated is that headed by Rex 2002 Limited.