Regus Business Centres (UK) Limited

Directors' report and financial statements

Year ended 31 December 2006

Registered number 2961188

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 2006

Business review and principal activities

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

The results for the company show a pre-tax loss of £499,000 (2005 profit £3,775,000) for the year end and turnover of £57,416,000 (2005 £53,505,000)

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend (2005 £nil)

Key performance indicators ("KPIs")

A summary of the company's key performance indicators for the year is as follows

	2006	2005	Definition, method of calculation and analysis
Turnover / Revenue (£'000)	£57,416	£53,505	Total turnover for the year
Weighted average number of workstations	9,074	9,274	The total number of available workstations expressed as a weighted average
Average occupancy	73 7%	66 0%	Occupied workstations divided by available workstations expressed as a percentage
REVPOW	£8,586	£8,741	Average revenue per occupied workstation
REVPAW	£6,327	£5,769	Average revenue per available workstation

Future outlook

Looking ahead into 2007 we will continue to focus on new sales and marketing channels such as TV and radio In the first quarter of this year we launched a real time booking system for meeting rooms and have recently launched our Training Centre Product specially geared to hosting conferences

Principal risks and uncertainties

There are a number of risks and uncertainties which could have an impact on the company's long term performance The company has a risk management structure in place designed to identify, manage and mitigate business risks Risk assessment and evaluation is an essential part of the annual planning, budgeting and forecasting cycle

The directors have identified that the principal risks and uncertainties affecting the company are an economic downturn in the market and exposure to movements in the property market Further discussion of these risks and uncertainties, in the context of the Regus plc group as a whole, is provided on page 24 of the group's annual report which does not form part of this report

Financial risk management objectives and policies

The objectives, policies and strategies applied by the company with respect to financial instruments are determined by Regus Group plc Exposure to credit, interest rate and currency risk arise in the normal course of business The principal financial instruments used by the company to finance its operations are cash and loans

Credit risk

A diversified customer base and requirement for customer deposits and payments in advance on workstation contracts minimises the company's exposure to customer credit risk

Cash assets, borrowings and derivative financial instruments are only transacted with counterparties of sound credit ratings and management does not expect any counterparty to fail to meet its obligations

Interest rate risk

At 31 December 2006 there was no outstanding debt Surplus cash balances are invested to achieve maximum interest returns on a day to day basis

Directors' report *(continued)*

Foreign currency risk

The company's exposure to currency risk at a transactional level is minimal as the majority of day to day transactions are carried out in pounds sterling

Derivative financial instruments

At 31 December 2006 there were no derivative financial instruments outstanding

Research and development

One of our core skills is our ability to anticipate the changing demands of our customers We therefore focus our research on developing new products and services which meet the future needs of our customers

Directors and directors' interests

The directors who held office during the year were as follows

MLJ Dixon (resigned 18 September 2007)
DS Ford (resigned 20 April 2006)
RJG Lobo (appointed 20 April 2006, resigned 18 September 2007)
BN McDonnell (resigned 20 April 2007)
NAL Wood (appointed 16 April 2007)
X Walters (appointed 20 April 2007)

The interests of MLJ Dixon and RJG Lobo in the ordinary shares of Regus Group 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 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 7 to the financial statements

Political contributions and charitable donations

The company made no political or charitable contributions in either 2006 or 2005

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 2006 are 6 *(2005 3)*

Directors' report (continued)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the Board

X Walters
Secretary

3000 Hillswood Drive
Chertsey
Surrey
KT16 0RS
27 September 2007

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company for that period

In preparing these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 the group and to prevent and detect fraud and other irregularities

The directors are also responsible for preparing a Directors' Report that complies with the Companies Act 1985

By order of the Board

X Walters
Secretary

3000 Hillswood Drive
Chertsey
Surrey
KT16 0RS
27 September 2007

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

We have audited the financial statements of Regus Business Centres (UK) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movement in shareholders funds and the related notes These financial statements have been prepared under the accounting policies set out therein

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

kpmg
KPMG
Chartered Accountants &
Registered Auditors
17/25 College Square East
Belfast BT1 6DH

27 September 2007

Profit and loss account

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover	*1*	**57,416**	53,505
Earnings before interest, tax, depreciation and amortisation		**3,494**	8,208
Depreciation		**(4,021)**	(4,536)
Operating (loss)/profit	*3*	**(527)**	3,672
Interest receivable	*4*	**30**	107
Interest payable and similar charges	*5*	**(2)**	(4)
(Loss)/profit on ordinary activities before taxation	*2*	**(499)**	3,775
Tax on (loss)/profit on ordinary activities	*6*	**879**	(1,830)
Profit for the financial year	*16*	**380**	1,945

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 9 to 16 form part of these financial statements

Balance sheet
at 31 December 2006

	Note	2006		2005	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*8*		**18,177**		19,587
Investments	*9*		**-**		-
			18,177		19,587
Current assets					
Debtors	*10*	**43,549**		35,186	
Cash at bank and in hand		**-**		896	
		43,549		36,082	
Creditors amounts falling due within one year	*11*	**(31,264)**		(25,429)	
Net current assets			**12,285**		10,653
Total assets less current liabilities			**30,462**		30,240
Creditors amounts falling due after more than one year	*12*		**(25,836)**		(25,836)
Provisions for liabilities and charges	*13*		**(956)**		(1,114)
Net assets			**3,670**		3,290
Capital and reserves					
Called up share capital	*15*		**-**		-
Profit and loss account	*16*		**3,670**		3,290
Shareholders' funds			**3,670**		3,290

These financial statements were approved by the board of directors on 27 September 2007 and were signed on its behalf by

NAL Wood

NAL Wood

Director

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	**380**	1,945
Total recognised gains and losses relating to the financial year	**380**	1,945
Total gains and losses recognised since last annual report	**380**	1,945

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	**380**	1,945
Shareholders' funds at beginning of year	**3,290**	1,345
Shareholders' funds at end of the year	**3,670**	3,290

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 financial statements, except as noted below

Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Companies Act 1985 under the historical cost accounting rules and comply with UK Generally Accepted Accounting Practice

The financial statements have been prepared on the going concern basis

Related party transactions

As the company is a wholly owned subsidiary of Regus Group plc, 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 is a wholly owned subsidiary undertaking of Regus Group plc 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 Provisions for dilapidations are only made when the company considers that it is likely that the premises will be vacated by the company and it is known that a dilapidation has occurred

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 to 10 years
Other fixtures and fittings	- Shorter of the lease term, the first break point of the building lease or 10 years
Computers	- 3 years

Notes *(continued)*

1 Accounting policies *(continued)*

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 Business Centres (UK) Limited operates a defined contribution scheme Contributions are charged to the profit and loss account on an accruals basis

Leases

i) 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

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

Notes *(continued)*

2 (Loss)/profit on ordinary activities before taxation

		2006	2005
		£000	£000
(Loss)/profit on ordinary activities before taxation is stated after charging			
Depreciation of tangible fixed assets		**4,021**	4,536
Amounts paid under operating leases			
	Property	**25,171**	22,319
	Other assets	**224**	275
Auditors' remuneration	As auditors	**19**	21
	Other services relating to taxation	**6**	7
Management fees		**2,768**	-
Loss on disposal of fixed assets		**2**	-

3 Operating (loss)/profit

Operating (loss)/profit is arrived at as follows

	2006	2005
	£000	£000
Turnover	**57,416**	53,505
Cost of sales	**(54,285)**	(49,195)
Gross profit	**3,131**	4,310
Administrative expenses	**(890)**	(638)
Management fees	**(2,768)**	-
Operating (loss)/profit	**(527)**	3,672

4 Interest receivable

	2006	2005
	£000	£000
Bank interest	**30**	107
	30	107

5 Interest payable and similar charges

	2006	2005
	£000	£000
Other interest	**2**	4
	2	4

Notes *(continued)*

6 Tax on (loss)/profit on ordinary activities

Analysis of charge/(credit) in year

	2006	2005
	£000	£000
UK corporation tax		
Current tax on income for the year	**-**	743
Adjustments in respect of prior periods	**(743)**	-
Total current tax	**(743)**	743
Deferred tax (see note 13)	**(136)**	1,087
Tax on (loss)/profit on ordinary activities	**(879)**	1,830

Factors affecting the tax charge for the current year

	2006	2005
	£000	£000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(499)**	3,775
Current tax at 30% (2005 30%)	**(150)**	1,133
Effects of		
Expenses not deductible for tax purposes	**109**	1
Capital allowances for period in excess of depreciation	**(219)**	58
Group relief surrendered (not paid for)	**2,076**	-
Other adjustments – UK UK transfer pricing	**(1,816)**	(449)
Adjustments in respect of prior periods	**(743)**	-
Total current tax (credit)/charge (see above)	**(743)**	743

Tax losses carried forward at the end of the year were £nil (2005 £nil)

7 Remuneration of the directors, staff numbers and costs

Directors' remuneration

MLJ Dixon is a director of Regus Group plc and his remuneration is disclosed in the accounts of that company The remaining directors are executives of Regus Holdings (UK) Limited, and are also directors of other subsidiaries of Regus Holdings (UK) Limited Details of the remaining directors' remuneration are disclosed in the accounts of Regus (UK) Limited

Notes *(continued)*

7 Remuneration of the directors, staff numbers and costs (continued)

Staff numbers and costs

On 1st September 2006 all employment contracts were transferred to Regus Management (UK) Limited The payroll costs were then recharged to Regus Business Centres (UK) Limited at cost The average number of persons employed by Regus Business Centres (UK) Limited and Regus Management (UK) Limited during the year excluding directors, analysed by category, was as follows

	2006 Number	2005 Number
Operations	**158**	150

The aggregate payroll costs of these persons were as follows

	2006 £000	2005 £000
Wages and salaries	**3,258**	2,988
Social security costs	**303**	297
Other pension costs	**49**	31
	3,610	3,316

8 Tangible fixed assets

	Computer equipment £000	**Fixtures and fittings £000**	**Total £000**
Cost			
At beginning of the year	1,339	50,050	51,389
Additions	106	2,501	2,607
Disposals	-	(8)	(8)
Transfers	7	-	7
At end of the year	1,452	52,543	53,995
Depreciation			
At beginning of the year	1,291	30,511	31,802
Charge for year	48	3,973	4,021
Disposals	-	(6)	(6)
Transfers	1	-	1
At end of the year	1,340	34,478	35,818
Net book value			
At 31 December 2006	**112**	**18,065**	**18,177**
At 31 December 2005	48	19,539	19,587

Notes *(continued)*

9 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 carried at nil value (2005 £nil)

10 Debtors

	2006 £000	2005 £000
Amounts falling due within one year		
Trade debtors	**6,385**	6,064
Amounts owed by fellow subsidiary undertakings	**25,483**	18,636
Other debtors	**114**	34
Prepayments and accrued income	**8,168**	7,053
	40,150	31,787
Amounts falling due after one year		
Amounts owed by joint venture (note 17)	**3,399**	3,399
	43,549	35,186

11 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Unsecured short term loans and overdrafts	**3,461**	-
Trade creditors	**875**	385
Customer deposits	**10,444**	8,765
Amounts owed to parent and fellow subsidiary undertakings	**1,147**	1,142
Amounts owed to joint venture (note 17)	**107**	241
Corporation tax	**-**	742
Taxation and social security	**1,127**	1,359
Accruals and deferred income	**14,103**	12,795
	31,264	25,429

12 Creditors. amounts falling due after more than one year

	2006 £000	2005 £000
Amounts owed to parent and fellow subsidiary undertakings	**25,836**	25,836
	25,836	25,836

Notes *(continued)*

13 Provisions for liabilities and charges

	Deferred tax	Dilapidations / Mothballing	Total
	£000	£000	£000
At beginning of the year	1,087	27	1,114
Charged to the profit and loss for the year	(136)	5	(131)
Utilised during the year	-	(27)	(27)
At end of the year	951	5	956

Deferred tax relates to accelerated capital allowances of £3,170,000 (2005 £3,623,000)

14 Commitments

Capital commitments contracted at the end of the financial year for which no provision has been made amounted to £98,000 *(2005 £15,000)* 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	Vehicle, plant and equipment	2006 Total	2005 Total
	£000	£000	£000	£000
Operating leases which expire				
Within one year	-	3	3	17
Within two to five years	439	1	440	450
After five years	23,669	-	23,669	23,218
	24,108	4	24,112	23,685

15 Called up share capital

	2006	2005
	£	£
Authorised		
100 Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100

Notes *(continued)*

16 Profit and loss account

	2006	2005
	£000	£000
At beginning of the year	**3,290**	1,345
Profit for the financial year	**380**	1,945
At end of the year	**3,670**	3,290

17 Related party transactions

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

	2006	2005
	£000	£000
Trading account		
Balance receivable/(payable) at start of the year	**(241)**	627
Expenses charged in the year	**693**	688
Cash received in the year	**(559)**	(1,556)
(Payable) / Receivable at end of year (notes 10 and 11)	**(107)**	(241)
Loan balance		
Balance receivable at start of year	**3,399**	4,399
Amount repaid in year	**-**	(1,000)
Balance receivable at end of year (note 10)	**3,399**	3,399

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

18 Ultimate parent company and controlling party

On 20 April 2006, Regus Group plc acquired from Rex 2002 Limited the 58% of Regus Holdings (UK) Limited's shares that it did not already own, for a cash consideration of £86 million From that date, Regus Holdings (UK) Limited became a wholly owned subsidiary of Regus Group plc, a company incorporated in Great Britain and registered in England and Wales

The smallest and largest group in which the results of the company are consolidated is that headed by Regus Group plc The consolidated accounts of this group are available to the public and may be obtained from Regus Group plc, 3000 Hillswood Drive, Hillswood Business Park, Chertsey KT16 0RS