

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC

We have audited the Group financial statements of Workspace Group PLC for the year ended 31 March 2010 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Report set out on pages 42 to 45 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

Under the Listing Rules we are required to review:

- the Directors' Statement, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the Parent Company financial statements of Workspace Group PLC for the year ended 31 March 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Bowker Andrews (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 June 2010

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH

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	Notes	2010 £m	2009 £m
Revenue	1	66.5	69.8
Direct costs	1	(22.1)	(22.4)
Net rental income	1	44.4	47.4
Administrative expenses	3	(9.1)	(9.0)
Trading profit		35.3	38.4
Change in fair value of investment property	10	1.8	(325.3)
Other income	2a	0.3	1.0
Other expenses	2a	(1.2)	–
Profit on disposal of investment properties	2b	5.8	9.8
Operating profit/(loss)	3	42.0	(276.1)
Finance income	4	0.1	0.4
Finance costs	4	(24.6)	(28.8)
Exceptional finance costs	4	–	(5.9)
Total finance costs	4	(24.6)	(34.7)
Change in fair value of derivative financial instruments	4	(0.6)	(26.1)
Share in former joint venture profit/(loss) after tax	25d	6.7	(23.9)
Negative goodwill on business combination	25d	2.4	–
Profit/(loss) before tax		26.0	(360.4)
Taxation	6	(1.8)	–
Profit/(loss) for the period after tax and attributable to equity shareholders		24.2	(360.4)
Basic earnings/(loss) per share (pence)	8	2.3p	(134.6)p
Diluted earnings/(loss) per share (pence)	8	2.2p	(134.6)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH

	Notes	2010 £m	2009 £m
Profit/(loss) for the financial year		24.2	(360.4)
Fair value movement of derivative financial instruments		–	1.1
Revaluation of owner occupied property	12	0.7	–
Total comprehensive income		24.9	(359.3)

The notes on pages 61 to 82 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH

	Notes	2010 £m	2009 £m
Non-current assets			
Investment properties	10	713.2	664.1
Intangible assets	11	0.4	0.3
Property, plant and equipment	12	3.4	3.1
Trade and other receivables	13	4.9	–
		721.9	667.5
Current assets			
Trade and other receivables	13	4.5	9.1
Cash and cash equivalents	14	2.1	3.7
		6.6	12.8
Current liabilities			
Bank overdraft	16a	(2.3)	–
Derivative financial instruments	16d & e	(22.6)	(26.2)
Trade and other payables	15	(28.5)	(32.3)
Current tax liabilities		(2.8)	(0.9)
		(56.2)	(59.4)
Net current liabilities			
		(49.6)	(46.6)
Non-current liabilities			
Borrowings	16a	(384.1)	(359.4)
Deferred tax liabilities	20	–	(0.1)
Provisions	21	–	(9.5)
Other non-current liabilities		(0.9)	–
		(385.0)	(369.0)
Net assets			
		287.3	251.9
Shareholders' equity			
Ordinary shares	22a	114.9	104.6
Share premium	22a	24.7	24.6
Investment in own shares	24	(7.2)	(5.7)
Other reserves	23	13.0	2.6
Retained earnings		141.9	125.8
Total shareholders' equity		287.3	251.9
EPRA net asset value per share	9	27p	27p

The financial statements were approved and authorised for issue by the Board of Directors on 7 June 2010 and were signed on its behalf by

H Platt
G Clemett
Directors

The notes on pages 61 to 82 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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	Notes	Attributable to owners of the Parent					Total £m
		Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	
Balance at 1 April 2008		17.4	30.8	(4.5)	(0.9)	494.0	536.8
Loss for the year		-	-	-	-	(360.4)	(360.4)
Other comprehensive income:							
Fair value movements on derivatives		-	-	-	1.1	-	1.1
Hedge reserve recycled to income		-	-	-	1.8	-	1.8
Total comprehensive income		-	-	-	2.9	(360.4)	(357.5)
Transactions with owners:							
Share issues		87.2	(6.2)	-	-	-	81.0
ESOT shares net purchase		-	-	(1.2)	-	-	(1.2)
Dividends paid		-	-	-	-	(7.8)	(7.8)
Value of employee services		-	-	-	0.6	-	0.6
Balance at 31 March 2009		104.6	24.6	(5.7)	2.6	125.8	251.9
Profit for the year		-	-	-	-	24.2	24.2
Other comprehensive income:							
Revaluation of owner occupied property		-	-	-	0.7	-	0.7
Total comprehensive income		-	-	-	0.7	24.2	24.9
Transactions with owners:							
Share issues	22a	10.3	0.1	-	8.7	-	19.1
ESOT shares net purchase	24	-	-	(0.2)	-	-	(0.2)
Transfer of shares	24	-	-	(1.3)	-	-	(1.3)
Dividends paid		-	-	-	-	(8.1)	(8.1)
Value of employee services		-	-	-	1.0	-	1.0
Balance at 31 March 2010		114.9	24.7	(7.2)	13.0	141.9	287.3

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	18	36.3	40.6
Interest received		0.1	0.4
Interest paid		(25.3)	(29.4)
Tax refunded		-	4.9
Net cash inflow from operating activities		11.1	16.5
Cash flows from investing activities			
Purchase of investment properties		(4.0)	(4.2)
Capital expenditure on investment properties		(5.9)	(9.2)
Net proceeds from disposal of investment properties		57.1	11.4
Purchase of intangible assets		(0.2)	(0.1)
Purchase of property, plant and equipment		(0.1)	(0.4)
Investment in and loan to joint venture		(0.8)	(3.8)
Movement in short-term funding balances with joint venture		2.0	2.4
Net cash inflow/(outflow) from investing activities		48.1	(3.9)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital less fees ⁽¹⁾		16.3	83.6
Finance costs to amend existing borrowing facilities ⁽²⁾		(1.8)	(3.4)
Joint venture restructuring costs and priority fee		(2.1)	-
Settlement of derivative financial instruments		(8.6)	-
Net repayment of bank borrowings		(58.2)	(78.8)
ESOT shares net purchase		(0.2)	(1.2)
Finance lease principal payments		(0.4)	(0.2)
Dividends paid to shareholders	7	(8.1)	(7.8)
Net cash outflow from financing activities		(63.1)	(7.8)
Net (decrease)/increase in cash and cash equivalents		(3.9)	4.8
Cash and cash equivalents at start of year	18	3.7	(1.1)
Cash and cash equivalents at end of year	18	(0.2)	3.7

Notes:

1. 2010 includes £2.5m fees relating to 2008/9 rights issue.
2. Costs relating to 2008/9 borrowing facility amendments.

The notes on pages 61 to 82 form part of these financial statements.

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BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, owner occupied property, derivative financial instruments and share-based payments.

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Group's significant accounting policies are stated below. Not all of these accounting policies require management to make subjective or complex judgements. The following is intended to provide an understanding of the policies that management consider critical because of the level of judgement or estimation involved in their application and their impact on the consolidated financial statements.

Investment property valuation

The Group uses the valuation performed by its independent valuers as the fair value of its investment properties. The valuation is based upon assumptions including estimated rental values, future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts.

Compliance with the Real Estate Investment Trust (REIT) regime

On 1 January 2007 the Group converted to a group REIT. In order to achieve and retain group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets
- at least 75% of the Group's total profits each year must arise from the tax exempt business
- at least 90% of the taxable profit of the property rental business must be distributed
- the Group must take reasonable steps to avoid payment of dividends to an entity controlling (directly or indirectly) 10% or more of the voting rights of Workspace Group PLC.

The Directors intend that the Group should continue as a group REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business and relevant property rental income is treated as exempt from taxation.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, as explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 31 March 2010. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date control ceases.

Inter company transactions, balances and unrealised gains from intra group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint ventures are those entities over whose activities the Group has shared control, established by contractual agreement. Joint ventures are accounted for under the equity method whereby the consolidated financial statements include the Group's investment in and contribution from the joint venture.

The Group has adopted IFRS 3 (revised) 'Business Combinations'. This standard was applied to the acquisition of the remaining 50% of the former joint venture in Workspace Glebe Limited in December 2009. This acquisition has occurred in stages. The revised standard requires that goodwill is determined only at the acquisition date rather than at previous stages. The determination of goodwill reflects the previously held equity interest adjusted to fair value. The excess of the consideration transferred and the fair values of the net assets acquired is recorded as goodwill. Where this is less than the fair value of the net assets of the subsidiary in the case of a bargain purchase, the difference is recognised directly in the income statement as negative goodwill. Acquisition related costs are expensed to the income statement.

Investment properties

Investment properties are those properties owned or leased under a finance lease by the Group that are held to earn rental income or for capital appreciation or both and are not occupied by the Company or subsidiaries of the Group.

Land or buildings held under operating leases are classified and accounted for as investment properties where the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs. After initial recognition investment property is held at fair value based on a valuation by a professional external valuer at each reporting date. Changes in fair value of investment property at the reporting date are recorded in the income statement.

Properties are treated as acquired at the point the Group assumes the significant risks and returns of ownership and are treated as disposed when these are transferred outside of the Group's control.

Existing investment property which undergoes redevelopment for continued future use as investment property remains in investment property. Property that is being constructed or developed for future use as investment property, but has not previously been classified as such, is classified as property, plant and equipment and initially recognised at cost until construction or development is complete, at which time it is reclassified as investment property at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and the cost of each item can be reliably measured. Certain internal staff costs directly attributable to capital/redevelopment projects are capitalised. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH CONTINUED

In the case of existing investment properties undergoing redevelopment, capitalised interest on the redevelopment expenditure is added to the asset's carrying amount. Borrowing costs capitalised are calculated by reference to the actual interest rate payable on borrowings, or if financed out of general borrowings by reference to the average rate payable on funding the assets employed by the Group and applied to the direct expenditure on the property undergoing redevelopment. Interest capitalised is from the date of commencement of the re-development activity until the date when substantially all the activities necessary to prepare the asset for its intended use are complete.

Property, plant and equipment

Land and buildings

Land and buildings within property, plant and equipment relate to the owner occupied building – Magenta House. During the year the Group adopted the revaluation model to show this asset category at fair value less subsequent depreciation for buildings. They were revalued by CB Richard Ellis at £2.7m in aggregate as detailed in the property, plant and equipment note (note 12). The historic cost carrying value was £2.0m and the gain on revaluation of £0.7m has been recognised in the statement of comprehensive income and other reserves (prior year impact would have been a loss of £0.1m).

This class of asset will continue to be revalued on a regular basis.

In prior years, land and buildings were shown at historical cost less depreciation.

Depreciation rates are as follows:

Land	not depreciated
Buildings	50 years

Motor vehicles and equipment and fixtures

Motor vehicles, equipment and fixtures are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is charged to the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred.

Depreciation is provided using the straight line method to allocate the cost less estimated residual value over the asset's estimated useful lives as follows:

Motor vehicles	4 years
Equipment and fixtures	4-10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at least at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Intangibles

Acquired computer software licences and external costs of implementing or developing computer software programmes are capitalised. These costs are amortised over their estimated useful lives of five years on a straight line basis. Intangibles are stated at historical cost.

Costs associated with maintaining computer software programmes are recognised as an expense as they fall due.

Leases

A group company as lessee

- i) Operating leases – leases in which substantially all the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the income statement on a straight line basis over the period of the lease.
- ii) Finance leases – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the net present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement. The investment properties acquired under finance leases are subsequently carried at fair value.

A group company as lessor

Operating leases – properties leased out under operating leases are included in investment property in the balance sheet. Rental income from operating leases is recognised in the income statement on a straight line basis over the lease term. When the Group provides incentives to its customers the incentives are recognised over the lease term on a straight line basis.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at cost less provision for impairment where it is established there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The provision is recorded in the income statement.

Trade and other payables

Trade and other payables are stated at cost.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the initial amount (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method, except for interest capitalised on redevelopments.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments and hedge accounting

The Group enters into derivative transactions such as interest rate collars and swaps in order to manage its interest rate risk. Derivatives are recorded at fair value calculated by valuation techniques based on market prices and estimated cash flows. Changes in the fair value of derivatives are recognised in the income statement as they arise.

The Group applies hedge accounting under IAS 39 for transactions which meet the specific criteria for this under the relevant standard. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity. Any ineffective portion is recognised within the income statement.

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Hedge accounting is discontinued when the hedging instrument expires or is sold or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to the cash flow hedges recognised in equity are initially retained in equity and subsequently released into the income statement. The Group currently has no derivatives to which hedge accounting is applied.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Investment in own shares

The Group operates an Employee Share Ownership Trust (ESOT). When the Group purchases Company shares, the consideration paid is deducted from shareholders' equity as investment in own shares until the shares are re-issued, cancelled or disposed of. Where shares are re-issued or disposed of any consideration due is included in shareholders' equity as investment in own shares.

Provisions

Provisions are recognised when the Group has a current obligation arising from a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the present value of the expenditure required to settle that obligation at the balance sheet date.

Revenue recognition

Revenue comprises rental income, service charges and other sums receivable from the Group's investment properties. Other sums comprise insurance charges, supplies of utilities, premia associated with surrender of tenancies, commissions, fees and other sundry income.

Rental income from operating leases is recognised in the income statement on a straight line basis over the lease term. When the Group provides lease incentives to its tenants the incentives are recognised over the lease term, on a straight line basis.

Service charge and other sums receivable from tenants are recognised by reference to the stage of completion of the relevant service or transactions at the reporting date.

Rental income from property let out under a finance lease is accounted for by allocating each lease payment between receivable and finance income so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance income is credited to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period. Contingent rents, being those lease payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned.

Income for the sale of assets is recognised when the significant risks and returns have been transferred to the buyer. In the case of sales of properties this is generally taken on completion. Where any aspect of consideration is deferred the net present value of the expected consideration is recognised where receipt of the consideration is deemed to be highly probable.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision maker is the Executive Board of the Company. The Group considers that it has only one operating segment being a single portfolio of commercial property providing business accommodation for rent in London. Discrete financial information is provided to the chief operating decision maker on a property by property basis, including rental income and direct costs and valuation gains or losses.

Exceptional items

Exceptional items are significant items of income or expense which are separately presented on the face of the Group Income Statement by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance.

Direct costs

Minimum lease payments payable under head leases categorised as finance leases are allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement. Contingent rents, being those lease payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as an expense in the income statement in the period in which they are incurred.

Share-based payment

Incentives in the form of shares are provided to employees under share option schemes. The fair value of the options granted is recognised over the vesting period.

Fair value is measured by the use of Black-Scholes, Monte-Carlo and Binomial option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company has established an ESOT to satisfy part of its obligation to provide shares when employees exercise their options. The Company provides funding to the ESOT to purchase these shares.

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement as they fall due.

Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current income tax is tax payable on the taxable income for the year and any prior year adjustment and is calculated using tax rates that have been substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred tax liability settled. Deferred tax is provided in full on the difference between the original cost of investment properties and their carrying amounts at the reporting date without taking into account deductions and allowances, which would apply if the assets concerned were disposed of. Since conversion to a REIT deferred tax is not required to be provided on the investment properties held within the REIT.

No provision is made for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or relating to investments in subsidiaries where it is probable that the temporary differences will not reverse in the foreseeable future.

Dividend distributions

Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved, while interim dividends are recognised when paid.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH CONTINUED

NEW AND AMENDMENTS TO ACCOUNTING STANDARDS

a) The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009:

The following new standards, amendments and interpretations are mandatory for the first time for the years beginning after 1 January 2009 and have been adopted by the Group. With the exception of IAS 1 (revised) and IFRS 3 (revised) these new pronouncements have had no material impact on the financial statements.

- IAS 1 (revised) 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of change in equity, requiring 'non-owner changes in equity' to be presented separately. All 'non-owner changes in equity' are required to be shown in one performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements; an income statement and a statement of comprehensive income.
- IFRS 3 (revised) 'Business Combinations' (effective 1 July 2009). The revised standard continues to apply the acquisition method to business combinations with some significant changes. For example all payments to purchase a business are to be recorded at fair value at the acquisition date, with any contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- IFRS 8 'Operating segments'; This standard replaces IAS 14, 'Segment reporting', and is effective for annual periods beginning on or after 1 January 2009. The new standard requires a 'management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. There is no material effect of adoption by the Group as the Group only has one reportable segment as disclosed in note 1.
- IAS 40, 'Investment property', amendment (and consequential amendment to IAS 16, 'Property, plant and equipment'). The amendments are part of the IASB's annual improvements project published in May 2008 and are effective from 1 January 2009. Property that is under construction or development for future use as investment property is brought within the scope of IAS 40. Where the fair value model is applied, such property is measured at fair value. This change is not relevant to the Group.
- IFRS 7 Amendment: IFRS 7, 'Improving disclosures about financial instruments'. The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a three-level fair value measurement hierarchy. In addition to that, the amendment clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and secondly requires disclosure of remaining contractual maturities

of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The entity has to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The adoption of the amendment results in additional disclosures but does not have an impact on profit or earnings per share. The enhanced requirements under this disclosure have been covered in note 16.

Other standards now applicable but which do not have a material effect are:

Standard or interpretation	Content	Applicable for financial years beginning on or after
IAS 32 and IAS 1	Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly-controlled entity or associate	1 January 2009
IFRS 2	Share-based payments – Vesting conditions and cancellations	1 January 2009
IFRS 13	Customer Loyalty programmes	1 July 2008
IFRS 15	Agreements for the construction of real estate	1 January 2009

b) Standards, amendments and interpretations that are not yet effective and not expected to have significant impact on the Group's financial statements:

Standard or interpretation	Content	Applicable for financial years beginning on or after
IFRS 9*	Financial instruments: Classification and measurement	1 January 2013
Amendment: IAS 24*	Related party disclosures	1 January 2011
IAS 32*	Classification of rights issues	1 February 2010
Amendment: IFRS 1*	Additional exemptions for first-time adopters	1 January 2010
Amendment: IFRS 2	Group cash-settled share-based payment transactions	1 January 2010
IFRS 1*	First-time adoption of International Financial Reporting Standards	1 July 2009
IAS 39	Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
IFRIC 16*	Hedges of a net investment in a foreign operation	1 October 2008 (EU endorsed 1 July 2009)
IFRIC 17*	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18*	Transfers of assets from customers	1 July 2009

* These standards are not expected to be relevant to the Group.

1. Analysis of net rental income and segmental information

	2010			2009		
	Revenue £m	Direct costs £m	Net rental income £m	Revenue £m	Direct costs £m	Net rental income £m
Rental income	49.8	(0.2)	49.6	54.2	(0.2)	54.0
Service charges and other recoveries	14.2	(18.8)	(4.6)	13.3	(19.1)	(5.8)
Empty rates	–	(1.7)	(1.7)	–	(1.8)	(1.8)
Services, fees, commissions and sundry income	2.5	(1.4)	1.1	2.3	(1.3)	1.0
	66.5	(22.1)	44.4	69.8	(22.4)	47.4

Discrete financial information is provided to the Executive Board on a property by property basis, including rental income and direct costs and valuation gains or losses. All of the properties within the portfolio are geographically close to each other and have similar economic features and risks and all information provided to the Executive Board is aggregated and reviewed in total as one portfolio. As a result management have determined that the Group operates a single operating segment providing business accommodation for rent in London, which is continuing.

As noted above, the Executive Board assesses the performance of the operating segment using measures of rental income and direct costs and valuation gains or losses. All financial information provided to the Executive Board is prepared on a basis consistent with these financial statements and, as the Group has only one operating segment, the measures used in assessing the business have been reconciled to profit before tax in the Consolidated Income Statement and net assets in the Consolidated Balance Sheet.

2(a). Other income and expenses

	2010 £m	2009 £m
Non-refundable option fees and deposits for potential sale of property	–	1.0
Right of light and other damages compensation	0.3	–
Other income	0.3	1.0
Legal fees relating to construction contract litigation	(1.2)	–
Other expenses	(1.2)	–
	(0.9)	1.0

2(b). Profit on disposal of investment properties

	2010 £m	2009 £m
Gross proceeds from sale of investment properties	62.4	13.0
Book value at time of sale plus sale costs	(61.7)	(17.6)
	0.7	(4.6)
Movement in provision for joint venture tax indemnity [see note 21]	5.1	14.4
Pre-tax profit on sale	5.8	9.8

3. Operating profit/(loss)

The following items have been charged in arriving at operating profit/loss:

This analysis has been prepared by nature of expense.

	2010 £m	2009 £m
Direct costs:		
Depreciation of property, plant and equipment – owned assets ⁽¹⁾	0.2	0.2
Depreciation of investment properties – finance leases	0.4	0.2
Staff costs	3.3	3.1
Repairs and maintenance expenditure on investment property	2.9	3.2
Trade receivables impairment	0.3	0.2
Administrative expenses:		
Amortisation of intangibles	0.1	0.1
Depreciation of property, plant and equipment – owned assets	0.3	0.3
Staff costs	5.2	5.7
Other operating lease rentals payable: – motor vehicles	0.1	0.1
Audit fees payable to the Company's auditors ⁽²⁾	0.2	0.2

Notes:

1. Depreciation in direct costs relates to that of fixtures and fittings installed within investment properties.
2. Audit fees payable to the Company's auditors include £32,000 (2009: £37,000) of other services supplied pursuant to legislation, in respect of the half year review of the consolidated Group accounts and the statutory audits of the subsidiaries in the Group. Amounts payable to the Company's auditors for other non-audit services totalled £118,000 (2009: £396,000) of which £81,500 was remuneration related work, £35,000 was related to the acquisition of the joint venture and £1,500 was for sundry items. Total fees payable to PricewaterhouseCoopers LLP were £283,000.

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FOR THE YEAR ENDED 31 MARCH CONTINUED

3. Operating profit/(loss) continued

Total administrative expenses can be analysed as:

	2010 £m	2009 £m
Staff costs (as above)	5.2	5.7
Cash settled share-based costs	0.1	(0.6)
Equity settled share-based costs	1.0	0.6
Other	2.8	3.3
	9.1	9.0

4. Finance income and costs

	2010 £m	2009 £m
Interest income on bank deposits	0.1	–
Interest income on corporation tax refunds	–	0.4
Finance income	0.1	0.4
Interest payable on bank loans and overdrafts	(24.1)	(28.0)
Amortisation of issue costs of bank loans	(0.3)	(0.7)
Interest payable on finance leases	(0.3)	(0.2)
Interest capitalised on property refurbishments	0.1	0.1
	(24.6)	(28.8)
Exceptional finance costs*	–	(5.9)
Finance costs	(24.6)	(34.7)
Change in fair value of financial instruments through the income statement	(0.6)	(26.1)
Net finance costs	(25.1)	(60.4)

* The exceptional finance costs incurred in 2009 relate to the costs associated with amendments to existing borrowing facilities.

5. Employees and Directors

Staff costs for the Group during the year were:

	2010 £m	2009 £m
Wages and salaries	7.4	7.6
Social security costs	0.7	0.7
Defined contribution pension plan costs (see note 30)	0.4	0.4
Cash settled share-based costs	0.1	(0.6)
Equity settled share-based costs	1.0	0.6
	9.6	8.7

The number of people (including Executive Directors) employed at the year end was 174 (2009: 183).

The average number of persons employed during the year was 179 (2009: 187).

Key management for the purposes of related party disclosure under IAS 24 are taken to be the Executive Board Directors, the non-Board Executive Directors and the Non-Executive Directors. Key management compensation is set out below:

	2010 £m	2009 £m
Salaries and short-term employee benefits	2.2	1.8
Pensions and other post-employment benefits	0.2	0.2
Termination benefits	0.5	–
Share-based payments	0.5	0.4
	3.4	2.4

The remuneration of the Executive Directors is determined by the Remuneration Committee of the Board. A table of the Directors' emoluments and details of Directors' beneficial interests in the shares of the Company and in options to acquire shares in the Company are given in the Report of the Remuneration Committee on pages 46 to 54. These form part of the financial statements.

6. Taxation

Analysis of charge/(credit) in period:

	2010 £m	2009 £m
Current tax	1.9	0.1
Deferred tax	(0.1)	(0.1)
Total taxation charge	1.8	–
The charge in the period is analysed as follows:	2010 £m	2009 £m
Current tax:		
UK corporation tax	–	(0.1)
REIT conversion charge ¹	1.9	–
REIT penalty tax charge provision ²	(1.2)	1.2
Adjustments to tax in respect of previous periods	1.1	(1.1)
Total taxation charge	1.8	–

Notes:

- The REIT conversion charge is calculated at 2% of the value of properties acquired on the acquisition of the former joint venture.
- The REIT penalty charge provided last year was for non-compliance with the REIT requirement for the profit: financing as set out in the legislation to be greater or equal to 1.25. We have had confirmation that this will be waived in accordance with Finance Act 2009 and hence the provision has been reversed.

The tax on the Group's profit/(loss) for the period differs from the standard applicable corporation tax rate in the UK (28%). The differences are explained below:

	2010 £m	2009 £m
Profit/(loss) on ordinary activities before taxation	26.0	(360.4)
Adjust share in former joint venture profit/(loss) after tax	(6.7)	23.9
	19.3	(336.5)
Tax at standard rate of corporation tax in the UK of 28% (2009: 28%)	5.4	(94.2)
Effects of:		
REIT exempt income	(2.2)	(1.6)
REIT penalty tax (credit)/charge	(1.2)	1.2
REIT conversion charge	1.9	–
Changes in fair value not subject to tax as a REIT	(1.5)	98.4
Share scheme adjustments	0.3	0.1
Provision for tax indemnity	(1.4)	(4.0)
Negative goodwill on business combination	(0.7)	–
Adjustments to tax in respect of previous periods	1.1	(1.1)
Losses carried forward	0.1	1.2
Total taxation charge per income statement	1.8	–

The Group is a Real Estate Investment Trust (REIT). The Group's UK property rental business (both income and capital gains) is exempt from tax. The former joint venture is now also part of the REIT since the associated companies became wholly owned by the Group in December 2009. A REIT conversion charge is payable on the value of the properties acquired. The Group's 'residual' business (subject to tax) is small and consists mainly of ancillary services and commissions.

The Group currently has £4.2m (2009: £3.5m) of tax losses carried forward which have not been recognised as an asset as they are unlikely to be utilised in the foreseeable future.

7. Dividends

Ordinary dividends paid

	Payment date	Per share	2010 £m	2009 £m
For the year ended 31 March 2008				
Final dividend	August 2008*	3.04p	–	5.2
For the year ended 31 March 2009				
Interim dividend	February 2009*	1.52p	–	2.6
Final dividend	August 2009	0.50p	5.2	–
For the year ended 31 March 2010				
Interim dividend	February 2010	0.25p	2.9	–
Dividends paid			8.1	7.8

*Dividends per share have not been adjusted to reflect the bonus factor inherent in the Rights Issue in March 2009.

In addition the Directors are proposing a final dividend in respect of the financial year ended 31 March 2010 of 0.5p per Ordinary Share which will absorb an estimated £5.7m of revenue reserves. The dividend will be paid as a non PID dividend. If approved by the shareholders at the AGM, it will be paid on 6 August 2010 to shareholders who are on the register of members on 18 June 2010. It is intended that a scrip dividend alternative will be offered to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH CONTINUED

8. Earnings per share

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2010 £m	2009 £m
Earnings/(loss) used for calculation of earnings per share:		
Profit/(loss) used for basic and diluted earnings	24.2	(360.4)
Change in fair value of investment property	(1.8)	325.3
Profit on disposal of investment properties	(5.8)	(9.8)
Movement in fair value of derivative financial instruments	0.6	26.1
Group's share of EPRA adjustments of joint venture	-	22.7
EPRA adjusted earnings	17.2	3.9
Add back exceptional items (see note 4)	-	5.9
Adjusted underlying earnings	17.2	9.8

	2010 Number	2009 Number*
Weighted average number of shares used for calculation of earnings per share:		
Weighted average number of shares (excluding shares held in the ESOT)	1,073,361,020	267,733,813
Dilution due to Share Option Schemes	11,540,185	2,173,993
Shares for diluted earnings per share	1,084,901,205	269,907,806

* The number of shares have been adjusted for the comparative year in accordance with IAS 33 'Earnings Per Share' to reflect the Rights Issue which the Group undertook on 13 March 2009. The weighted average number of shares has been calculated to increase the number of shares in issue after the Rights Issue and the bonus element for periods prior to the Rights Issue closing date. The factor used was 1.3308.

In accordance with IAS 33 'Earnings Per Share' no calculation of dilution is made where it would have an anti-dilutive effect of increasing the loss per share.

In pence:	2010	2009
Basic earnings per share	2.3p	(134.6)p
Diluted earnings per share	2.2p	(134.6)p
EPRA earnings per share	1.6p	1.4p
Underlying earnings per share	1.6p	3.6p

The European Public Real Estate Association (EPRA) issued Best Practices Policy Recommendations in November 2006, which gives guidelines for performance measures. The adjustments to earnings made above are in accordance with this guidance.

Underlying earnings consists of the EPRA earnings measure, with adjustment for exceptional items.

9. Net assets per share

	2010 £m	2009 £m
Net assets used for calculation of net assets per share:		
Net assets at end of year (basic)	287.3	251.9
Derivative financial instruments at fair value	22.6	26.2
EPRA net assets	309.9	278.1

EPRA net assets per share (pence)	27p	27p
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	2010 Number	2009 Number
Number of shares used for calculating net assets per share:		
Shares in issue at year-end	1,149,459,056	1,046,116,842
Less ESOT shares	(5,748,189)	(3,635,119)
Number of shares for calculating basic net assets per share	1,143,710,867	1,042,481,723
Dilution due to Share Option Schemes	14,968,151	1,618,267
Number of shares for calculating diluted adjusted net assets per share	1,158,679,018	1,044,099,990

Net assets have been adjusted and calculated on a diluted basis to derive a net asset measure as defined by the European Public Real Estate Association (EPRA).

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10. Investment properties

	2010 £m	2009 £m
Balance at 1 April	664.1	994.3
Property acquisitions*	5.1	4.6
Capital expenditure	6.4	8.0
Additions from business combination with former joint venture	96.7	–
Capitalised interest on refurbishments	0.1	0.1
Disposals during the year	(60.6)	(17.4)
Depreciation on finance leases	(0.4)	(0.2)
Change in fair value of investment property	1.8	(325.3)
Balance at 31 March	713.2	664.1

* Included within property acquisitions is an amount of £1.1m relating to the value of deferred consideration in the form of commercial space to be returned to the Group upon development by a third party. This arose from a part disposal of Canalot Studios in February 2010.

Capitalised interest is included at a rate of capitalisation of 6.7% (2009: 6.5%). The total amount of capitalised interest included in investment properties is £3.0m (2009: £2.9m).

Investment property includes buildings under finance leases of which the carrying amount is £3.5m (2009: £3.9m). Investment property finance lease commitment details are shown in note 16(f).

The Group has determined that all tenant leases are operating leases within the meaning of IAS17. The majority of the Group's tenant leases are granted with a rolling three-month tenant break clause. The future minimum rental receipts under non-cancellable operating leases granted to tenants are as follows:

	2010 £m	2009 £m
Within one year	14.5	11.9
Between two and five years	4.7	7.3
Beyond five years	1.7	3.9
	20.9	23.1

Valuation

The Group's investment properties were revalued at 31 March 2010 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had both acted knowledgeably, prudently and without compulsion.

The reconciliation of the valuation report total to the amount shown in the Consolidated Balance Sheet as non-current assets, investment properties, is as follows:

	2010 £m	2009 £m
Total per CB Richard Ellis valuation report	717.4	662.2
Deferred consideration on sale of property (note 13)	(4.9)	–
Owner occupied property	(2.7)	(1.8)
Head leases treated as finance leases under IAS 17	3.5	3.9
Short leases valued as head leases	(0.1)	(0.2)
Total investment properties per balance sheet	713.2	664.1

11. Intangible assets

Computer software	2010 £m	2009 £m
Cost		
Balance at 1 April	0.8	0.7
Additions during the year	0.2	0.1
Balance at 31 March	1.0	0.8
Accumulated amortisation and impairment		
Balance at 1 April	0.5	0.4
Charge for the year	0.1	0.1
Balance at 31 March	0.6	0.5
Net book value at end of year	0.4	0.3

None of the Group's intangible assets have been internally generated. All are regarded as having a finite life and are amortised accordingly.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH CONTINUED

12. Property, plant and equipment

	Owner occupied land £m	Owner occupied buildings £m	Equipment and fixtures £m	Total £m
Cost				
Balance at 1 April 2008	0.5	1.6	3.9	6.0
Additions during the year	–	–	0.4	0.4
Balance at 31 March 2009	0.5	1.6	4.3	6.4
Additions during the year	–	0.1	0.1	0.2
Disposal during the year	–	–	(0.1)	(0.1)
Gain/(loss) on revaluation	0.9	(0.4)	–	0.5
Balance at 31 March 2010	1.4	1.3	4.3	7.0
Accumulated depreciation				
Balance at 1 April 2008	–	0.1	2.7	2.8
Charge for the year	–	–	0.5	0.5
Balance at 31 March 2009	–	0.1	3.2	3.3
Charge for the year	–	0.1	0.4	0.5
Gain on revaluation	–	(0.2)	–	(0.2)
Balance at 31 March 2010	–	–	3.6	3.6
Net book amount at 31 March 2009	0.5	1.5	1.1	3.1
Net book amount at 31 March 2010	1.4	1.3	0.7	3.4

As permitted by IAS 16 'Property plant & equipment' the Group's owner occupied property has been included at valuation this year. The property was valued at 31 March 2010 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers who value the whole of the Group's Investment Property portfolio based on market information. The carrying value of the land and building under the historic cost model would have been £2.0m. The revaluation gain of £0.7m has been recognised in the statement of comprehensive income and taken to other reserves (note 23).

13. Trade and other receivables

	2010 £m	2009 £m
Non-current trade and other receivables		
Deferred consideration on sale of investment property	4.9	–
	4.9	–

The non-current receivable relates to deferred consideration arising on the sale of the Thurston Road site in February 2010. The value of this receivable has been fair valued by CB Richard Ellis as at 31 March 2010 based on market data and will be revalued on a regular basis.

	2010 £m	2009 £m
Current trade and other receivables		
Trade receivables	3.3	5.2
Less provision for impairment of receivables	(0.5)	(0.3)
Trade receivables – net (see note 17 (b))	2.8	4.9
Prepayments and accrued income	1.7	3.3
Amounts due from related parties (see note 26)	–	0.9
	4.5	9.1

There is no material difference between the above amounts and their fair values due to the short-term nature of the receivables. Trade receivables are impaired when there is evidence that the amounts may not be collectable under the original terms of the receivable. All the Group's trade and other receivables are denominated in sterling.

Movements on the provision for impairment of trade receivables are shown below:

	2010 £m	2009 £m
Balance at 1 April	0.3	0.3
Provision for receivables impairment	0.3	0.2
Receivables written off during the year	(0.1)	(0.2)
Balance at 31 March	0.5	0.3

As at 31 March 2010, the ageing of trade receivables past due but not impaired was as follows:

	Total 2010 £m	Impairment 2010 £m	Unimpaired 2010 £m	Total 2009 £m	Impairment 2009 £m	Unimpaired 2009 £m
Up to 3 months past due	2.5	–	2.5	4.2	–	4.2
3 to 6 months past due	0.2	(0.1)	0.1	0.5	(0.1)	0.4
Over 6 months past due	0.6	(0.4)	0.2	0.5	(0.2)	0.3
	3.3	(0.5)	2.8	5.2	(0.3)	4.9

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The trade receivables balance is deemed to be all past due as rental payments are due on demand. Trade receivables that are not impaired are expected to be fully recovered as there is no recent history of default or indications that debtors will not meet their obligations. Impaired receivables have been fully provided against.

14. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	–	1.3
Restricted cash – tenants' deposit deeds	2.1	2.4
	2.1	3.7
Bank overdraft	(2.3)	–
	(0.2)	3.7

Tenants' deposit deeds represent returnable cash security deposits received from tenants and are ring-fenced under the terms of the individual lease contracts.

Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement (see note 18).

15. Trade and other payables

	2010 £m	2009 £m
Trade payables	2.0	2.1
Taxation and social security payable	1.8	1.5
Tenants' deposit deeds (see note 14)	2.1	2.4
Tenants' deposits	7.6	6.2
Accrued expenses and deferred income	11.3	15.8
Deferred income-rent and service charges	3.7	4.3
	28.5	32.3

There is no material difference between the above amounts and their fair values due to the short-term nature of the payables.

16. Borrowings

a) Balances	2010 £m	2009 £m
Current		
Bank loans and overdrafts due within one year or on demand (secured)	2.3	–
	2.3	–
Non-current		
Bank loans (secured)	380.6	355.5
Finance lease obligations (part secured)	3.5	3.9
	384.1	359.4
	386.4	359.4

The secured loans and overdraft facility are secured on properties with balance sheet values totalling £670.6 m (2009: £608.4m).

b) Maturity	2010 £m	2009 £m
Secured (excluding finance leases)		
Repayable in less than one year	2.3	–
Repayable between one year and two years	–	–
Repayable between two years and three years	312.8	–
Repayable between three years and four years	–	356.0
Repayable between four years and five years	68.0	–
	383.1	356.0
Less cost of raising finance	(0.2)	(0.5)
	382.9	355.5
Finance leases (part secured)		
Repayable in five years or more	3.5	3.9
	386.4	359.4

c) Interest rate and repayment profile	Principal £m	Interest rate	Interest payable	Repayable
Current				
Bank overdraft due within one year or on demand	2.3	Base +1.75%	Variable	On demand
Non-current				
Loan – GE Real Estate Finance	198.8	LIBOR +2.00%	Quarterly	November 2012*
Loan – Royal Bank of Scotland (RBS)	114.0	LIBOR +2.75%	Variable	November 2012
Loan – Bank of Scotland (BoS)	68.0	LIBOR +1.25%	Quarterly	December 2014

* The GE Real Estate Finance facility is extendable to November 2012 at the Group's option upon payment of an extension fee in August 2010 and December 2011, with increases in margin.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH CONTINUED

16. Borrowings continued

d) Derivative financial instruments

The following interest rate derivatives are held:

	Amount hedged £m	Rate payable (or range for caps and collars) %	Rate receivable %	Expiry
Interest rate cap	20.0	5.00%	–	November 2010
Interest rate swap	100.0	5.43%	3 month LIBOR	October 2012
Interest rate swap	100.0	4.00%	1 month LIBOR	October 2012
Interest rate swap	25.0	5.40%	3 month LIBOR	November 2012
Interest rate swap	50.0	5.16%	3 month LIBOR	June 2013

The above instruments are treated as financial instruments at fair value with changes in value dealt with in the income statement during each reporting period.

e) Fair values of financial instruments

	2010 Book value £m	2010 Fair value £m	2009 Book value £m	2009 Fair value £m
Financial liabilities not at fair value through profit or loss				
Bank overdraft	2.3	2.3	–	–
Bank loans	380.6	380.6	355.5	355.5
Finance lease obligations	3.5	3.5	3.9	3.9
	386.4	386.4	359.4	359.4
Financial liabilities at fair value through profit or loss				
Derivative financial instruments:				
Liabilities	22.6	22.6	26.2	26.2
Assets	–	–	–	–
	22.6	22.6	26.2	26.2

The total change in fair value of derivative financial instruments recorded in the income statement was a loss of £0.6m (2009: £26.1m).

Effective from 1 January 2009, the Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 – Use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data

Level 3 – Use of a model with inputs that are not based on observable market data

The fair values of all the Group's financial derivatives have been determined by reference to market prices and discounted expected cash flows at prevailing interest rates and as such are a Level 2 valuation.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at fair value through profit or loss				
Derivative financial instruments:				
Liabilities	–	22.6	–	22.6
Assets	–	–	–	–

The total fair value calculated equates to 2.0p per share (31 March 2009: 2.5p).

f) Finance leases

Finance lease liabilities are in respect of leased investment property.

	2010 £m	2009 £m
Minimum lease payments under finance leases fall due as follows:		
Within one year	0.4	0.4
Between two and five years	0.8	1.0
Beyond five years	21.9	23.2
	23.1	24.6
Future finance charges on finance leases	(19.6)	(20.7)
Present value of finance lease liabilities	3.5	3.9

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17. Financial instrument risk management objectives and policy

The Group has identified exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Capital risk

The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below:

a) Market risk

Market risk is the risk that changes in market conditions such as interest rates and equity prices will affect the Group's income or valuations.

The Group's exposure to market risk is restricted to that of interest rate changes on its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group finances its operations through a mixture of retained profits and borrowings. The Group borrows at floating rates of interest and then uses interest rate collars and hedges to generate the desired interest and risk profile.

The Group's policy is to fix at least 50% of its borrowings. At 31 March 2010 72% (2009: 70%) of Group borrowings were fixed through the use of interest rate swaps.

All transactions entered into are approved by the Board and are in accordance with the Group's treasury policy. The Board also monitors variances on interest rates to budget and forecast rates to ensure that the risk relating to interest rates is being sufficiently safeguarded against.

Based upon year end variable rate loan balances, a reasonably possible interest rate movement of +/- 1% would increase or decrease net interest payable by £1.1m (2009: £1.3m).

b) Credit risk

The Group's main financial assets are cash and cash equivalents and trade and other receivables.

Credit risk is the risk of financial loss if a tenant or a counter party to a financial instrument fails to meet its contractual obligations. The Group's exposure to this risk principally relates to the receivables from tenants, however it has no significant concentration of credit risk.

The Group's exposure to credit risk is influenced mainly by the characteristics of individual tenants occupying its rental properties. The Group has some 4,000 tenants in over 100 properties generating net rental income. The largest 10 single tenants generate only 6% of net rental roll. As such, the credit risk attributable to individual tenants is low. In general, tenants provide a deposit equivalent to three months rent on inception of lease as security against default.

Monitoring of bad debts and any potential bad debts occurs every month with information being reported to Board level for monitoring as part of the performance monitoring process. The Group's debtor recovery is consistently high and as such is deemed a low risk area.

Cash and cash equivalents and financial derivatives are held with major UK clearing banks.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2010 £m	2009 £m
Cash and cash equivalents (note 14)	2.1	3.7
Trade receivables – current (note 13)	3.3	5.2
Trade receivables – non-current (note 13)	4.9	–
	10.3	8.9

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure it will always have sufficient funds to meet obligations as they fall due. This is performed via a variety of methods including regular cash flow review and forecasting, monitoring the maturity profile of debt and the regular revision of borrowing facilities.

The Group maintains the following lines of credit to ensure it can effectively manage its liquidity risk; an overdraft facility of £4m available on demand and undrawn facilities on loan balances at 31 March 2010 of £36m (31 March 2009: £38m).

Cash flow is monitored formally on a monthly basis as part of internal performance monitoring with regular daily monitoring and forecasting undertaken to manage day-to-day cash flow. The Board reviews compliance with loan covenants which include agreed interest cover ratios and loan to value, alongside review of available headroom on loan facilities. Details of the Group's covenants can be found in the Business Review section of this report.

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17. Financial instrument risk management objectives and policy continued

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities existing as at the balance sheet date. Interest payments are based upon the loan balances and applicable interest rates payable on these at each year end.

31 March 2010

	Carrying Amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
Financial Liabilities						
Bank overdraft	2.3	2.3	–	–	–	2.3
Secured bank loans (note 16b)	380.8	–	–	312.8	68.0	380.8
Interest payable on secured bank loans	–	10.2	10.2	7.3	0.2	27.9
Derivative financial instruments	22.6	11.7	11.7	7.4	0.4	31.2
Finance lease liabilities	3.5	0.4	0.4	0.4	21.9	23.1
Trade and other payables	28.5	28.5	–	–	–	28.5
	437.7	53.1	22.3	327.9	90.5	493.8

31 March 2009

	Carrying Amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
Financial Liabilities						
Secured bank loans (note 16b)	356.0	–	–	–	356.0	356.0
Interest payable on secured bank loans	–	14.6	14.6	14.6	9.6	53.4
Derivative financial instruments	26.2	9.6	9.0	8.8	4.7	32.1
Finance lease liabilities	3.9	0.4	0.3	0.3	23.6	24.6
Trade and other payables	32.3	32.3	–	–	–	32.3
	418.4	56.9	23.9	23.7	393.9	498.4

d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns to shareholders, maintain a good capital structure and reduce the cost of capital.

Capital risk management remained a key area for the Group throughout the financial year. In order to adjust the capital structure, the Group issued new shares via a Rights Issue in March 2009. A further raising of funds via a targeted disposals programme and share placement was undertaken during the year which helped to give improved headroom on loan balances and aid the restructuring of the former Glebe joint venture.

The net funds were used to repay some debt and reduce gearing. This has now enabled the Group to have sufficient headroom on financing and to ensure it is comfortably within loan to value covenants applied on borrowing which range between 75% to 85%.

18. Notes to cash flow statement

Reconciliation of profit/(loss) for the period to cash generated from operations:

	2010 £m	2009 £m
Profit/(loss) for the period	24.2	(360.4)
Tax	1.8	–
Depreciation	0.8	0.7
Amortisation of intangibles	0.1	0.1
Profit on disposal of investment properties	(5.8)	(9.8)
Net (gain)/loss from change in fair value of investment property	(1.8)	325.3
Equity settled share-based payments	1.0	0.6
Change in fair value of financial instruments	0.6	26.1
Interest income	(0.1)	(0.4)
Interest expense	24.6	34.7
Share in former joint venture	(6.7)	23.9
Negative goodwill on business combination	(2.4)	–
Changes in working capital:		
Decrease in trade and other receivables	1.2	2.4
(Decrease) in trade and other payables	(1.2)	(2.6)
Cash generated from operations	36.3	40.6

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

	2010 £m	2009 £m
Cash at bank and in hand	–	1.3
Restricted cash – tenants deposit deeds	2.1	2.4
Bank overdrafts	(2.3)	–
	(0.2)	3.7

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19. Analysis of net debt

	At 1 April 2009 £m	Cash flow £m	Non-cash Items* £m	At 31 March 2010 £m
Cash at bank and in hand	1.3	(1.3)	–	–
Restricted cash – tenants' deposit deeds	2.4	(0.3)	–	2.1
Bank overdrafts	–	(2.3)	–	(2.3)
	3.7	(3.9)	–	(0.2)
Bank loans	(356.0)	58.2	(83.0)	(380.8)
Less cost of raising finance	0.5	–	(0.3)	0.2
Finance lease obligations	(3.9)	0.4	–	(3.5)
	(359.4)	58.6	(83.3)	(384.1)
Total	(355.7)	54.7	(83.3)	(384.3)

* £83m of debt was acquired on the business combination with the former joint venture. £0.3m relates to amortisation of financing costs.

20. Deferred tax liabilities

	2010 £m	2009 £m
Balance at 1 April	0.1	0.2
Deferred tax credit	(0.1)	(0.1)
Balance at 31 March	–	0.1

If the Group's directly owned investment properties were sold for their revalued amount there would be no potential liability to corporation tax following the Group's conversion to a REIT.

21. Provisions for liabilities and charges

	At 1 April 2009 £m	Credit to income statement £m	At 31 March 2010 £m
Provision for tax indemnity ¹	5.1	(5.1)	–
Provision for interest shortfall in joint venture ²	4.4	(4.4)	–
	9.5	(9.5)	–

Notes:

1. Provision for tax indemnity

On the formation of the joint venture with Glebe (which was created by a merger and so triggered no tax liabilities) the Group gave an indemnity that should a tax liability arise in the future on the disposal of any of the properties that have been transferred, then the Group would pay to the joint venture a proportion of the liability based on the pre-merger gain. An appropriate provision under current tax law was made for this liability. The reduction reflects the extinguishment of this liability upon loan restructuring and acquisition of the former joint venture in December 2009. This amount has been credited to the Profit on Disposal of Investment Properties line in the Income Statement.

2. Provision for interest shortfall in former joint venture

The Group and its former joint venture partner had guaranteed (jointly and severally) interest shortfalls on the joint venture bank loan, up to a maximum amount of £6m.

Upon restructuring this was reduced and converted to a £2.4m priority fee repayable during the term of the new loan facility.

At 31 March 2010 the outstanding balance on this priority fee was £0.9m which is shown as other non-current liabilities on the balance sheet.

22(a). Share capital and premium

	2010 Number	2009 Number
Issued: Fully paid ordinary shares of 10p each	1,149,459,056	1,046,116,842
	2010 £m	2009 £m
Issued: Fully paid ordinary shares of 10p each	114.9	104.6
	2010 Number	2009 Number
Movements in share capital were as follows:		
Number of shares at 1 April	1,046,116,842	174,313,887
Issue of shares	103,327,509	871,764,035
Save as You Earn share options exercised	14,705	38,920
Number of shares at 31 March	1,149,459,056	1,046,116,842

In March 2009 the Group undertook a 5 for 1 rights issue at 10p per share raising £81m net of expenses. This year the Group issued 1.8m shares to the ESOT trust at par and also undertook a placement of 101.5m shares at 19p per share on 11 December 2009 (note 23) which raised £18.8m net of £0.4m expenses.

The £0.1m movement in share premium in the year relates to an over provision for rights issue costs made last year.

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22(b). Share-based payments

i) Long Term Equity Incentive Plan (LTIP)

The LTIP scheme is a performance award scheme whereby shares are issued against three Group performance measures which are assessed over the three-year vesting period. These are:

- Absolute TSR
- Relative TSR
- Relative NAV

Under the 2009 LTIP scheme 17,900,696 performance and matching shares were awarded in June 2009 to Directors and senior management (2008 LTIP scheme: 3,701,652). The Directors shares under these schemes are analysed in detail in the Directors' Remuneration Report on page 52.

A binomial model was used to determine the fair value of the LTIP grant for the Absolute TSR and Relative TSR elements of the LTIP scheme.

Assumptions used in the model were as follows:

	2010	2009
Share price at grant	16p	127p
Exercise price (pence)	Nil	Nil
Average expected life (years)	3	3
Risk free rate	2%	5%
Expected dividend yield	5%	3%
Average share price volatility	51%	37%
Fair value per option – Absolute TSR element	7p	66p
Fair value per option – Relative TSR element	8p	47p

The relative NAV is a non-market based condition and the intrinsic value is therefore the share price at date of grant of 16p. The Directors assess the likelihood of meeting the conditions under this element of the scheme on a six-monthly basis. The assessment at year end was that 50 % of the relative NAV element will vest.

The expected Workspace share price volatility was determined by taking account of the daily share price movement over a three-year period. The respective FTSE 250 Real Estate share price volatility and correlations were also determined over the same period. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions and historical experience.

The risk free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the present value of expected future dividend payments to expiry.

ii) Employee share schemes

The Group operates a Save As You Earn (SAYE) share option scheme and an Executive Share Option Scheme (ESOS) for which there have been no grants since 2007. Grants under the SAYE scheme are normally exercisable after three or five years saving. In accordance with UK practice, the majority of options under the SAYE schemes are granted at a price 20% below the market price ruling at the date of grant.

Grants under ESOS are normally exercisable between three and ten years from the date of grant and normally granted at the market price ruling at the date of grant.

Details of the movements for the SAYE and equity-settled ESOS schemes during the year were as follows:

	ESOS		SAYE	
	Number	Weighted exercise price	Number	Weighted exercise price
Options outstanding				
At 1 April 2009	6,058,082	147p	326,812	161p
Options granted	–	–	489,085	92p
Options exercised	–	–	(51,794)	69p
Options lapsed	(399,093)	167p	(480,498)	138p
At 31 March 2009	5,658,989	145p	283,605	97p
Options granted	–	–	4,405,690	12p
Options exercised	–	–	(14,705)	12p
Options lapsed	(626,820)	145p	(331,519)	81p
At 31 March 2010	5,032,169	145p	4,343,071	12p

Of the 5,032,169 (2009: 5,658,989) outstanding ESOS options at 31 March 2010 4,209,912 (2009: 4,434,613) were exercisable immediately.

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At 31 March 2010 in total there were 9,375,240 (2009: 5,942,594) SAYE and ESOS share options exercisable on the Company's ordinary share capital. Of these, 3,210,416 were Directors' share options and are disclosed in the Directors' Remuneration Report. 6,164,824 options are held by employees who are not Directors and these are analysed below:

Non-Director options Date of grant	Scheme	Exercise price (Pence)*	Ordinary Shares Number*	Exercisable between	
29 July 2002	ESOS	0.8939	499,027	29.07.2005	29.07.2012
30 June 2003	ESOS	0.8510	456,444	30.06.2006	30.06.2013
30 June 2004	ESOS	1.3583	270,140	30.06.2007	30.06.2014
17 June 2005	ESOS	1.8373	226,810	17.06.2008	17.06.2015
1 September 2005	ESOS	1.9989	80,044	01.09.2008	01.09.2015
15 June 2007	ESOS	3.2824	279,721	15.06.2010	15.06.2017
12 February 2008	ESOS	2.5324	161,898	12.02.2011	12.02.2018
Exercisable between					
22 July 2003	SAYE	0.684	985	01.09.2010	01.03.2011
20 July 2005	SAYE	1.503	4,177	01.09.2010	01.03.2011
22 July 2008	SAYE	0.917	8,470	01.09.2013	01.03.2014
21 July 2009	SAYE	0.119	3,324,930	01.09.2012	01.03.2013
21 July 2009	SAYE	0.119	852,178	01.09.2014	01.03.2015
Total			6,164,824		

* Following the Rights Issue in March 2009 the number of shares and exercise prices were adjusted by the relevant bonus factor.

The exercise of all options, other than those obtained under the Group's Save As You Earn scheme, is dependent upon the Group achieving specified performance targets as disclosed in the Directors' Remuneration Report on page 53.

The fair value of the SAYE share options granted during the year have been calculated using the Black-Scholes model. Inputs to the model are summarised as follows:

	2010 SAYE three-year	2010 SAYE five-year	2009 SAYE three-year	2009 SAYE five-year
Weighted average share price at grant	15p	15p	115p	115p
Exercise price (adjusted)	12p	12p	92p	92p
Expected volatility	51%	42%	37%	30%
Average expected life (years)	3	5	3	5
Risk free rate	2%	2%	5%	5%
Expected dividend yield	5%	5%	3%	3%
Possibility of ceasing employment before vesting	25%	25%	12%	28%

The expected volatility is based on historic volatility over a three or five-year period in line with the term of the option. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on the present value of expected future dividend payments to expiry.

Fair values per share of these options were:

	2010 Grant date	2010 Fair value of award	2009 Grant date	2009 Fair value of award
SAYE – three-year	21 July 2009	6p	22 July 2008	38p
SAYE – five-year	21 July 2009	5p	22 July 2008	43p

iii) Co-Investment Plan

The Group operated a Co-Investment Plans for Directors, the exercise of which depended on the achievement of certain market related performance conditions. No grants were made during the year on this scheme as it has been replaced by a Long Term Equity Incentive Plan (LTIP).

The scheme and performance criteria are fully explained in the Directors' Remuneration Report on page 49.

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22(b). Share-based payments continued

iv) Cash settled share-based payments

National Insurance payments due on the exercise of non-approved ESOS options and shares from the LTIP and the Co-Investment Plan are considered cash settled share-based payments.

The estimated fair value of the National Insurance cash settled share-based payments have been calculated using the Black-Scholes model. Inputs to the model for the grants during the year are summarised as follows:

	2010	2009
Share price at 31 March	24p	12p
Exercise price	–	–
Expected volatility	53%	30%
Term of option remaining (years)	2.2	2.2
Risk free rate	2%	2%
Expected dividend yield	5%	2%
Possibility of ceasing employment	10%	10%
Fair value of cash based payment per share	20p	20p

v) Share-based payment charges

The Group recognised a total charge in relation to share-based payments as follows:

	2010 £m	2009 £m
Equity settled share-based payments charged to equity	1.0	0.6
Cash settled share-based payments charged/(credited) to the income statement	0.1	(0.6)
	1.1	–

23. Other reserves

	Owner occupied property £m	Hedging reserve £m	Equity settled share-based payments £m	Merger reserve £m	Total £m
Balance at 1 April 2009	–	(2.9)	2.0	–	(0.9)
Fair value movement on derivatives	–	1.1	–	–	1.1
Charge to income statement	–	1.8	–	–	1.8
Value of employee services	–	–	0.6	–	0.6
Balance at 31 March 2009	–	–	2.6	–	2.6
Arising on share issue	–	–	–	8.7	8.7
Revaluation gain	0.7	–	–	–	0.7
Value of employee services	–	–	1.0	–	1.0
Balance at 31 March 2010	0.7	–	3.6	8.7	13.0

The revaluation gain on owner occupied property relates to the adoption of the revaluation model to measure owner occupied land and building at valuation rather than historic cost.

The merger reserve was created following the raising of £18.8m of equity through a cashbox share placing structure. As part of the arrangement for the placement, the Company entered into an arrangement with a subsidiary availing itself of statutory merger relief for not recording share premium under the Companies Act 2006. The nominal value of the new ordinary shares of £10.1m was credited to share capital and the remaining consideration of £9.1m less £0.4m costs were recorded as a merger reserve.

24. Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes, Co-Investment Plan and Long Term Equity Incentive Plan. The shares are held by an independent trustee and the rights to dividends on the shares have been waived except where the shares are beneficially owned by participants. During the year the Trust purchased 1,854,176 shares for a cash consideration of £0.2m. At 31 March 2010, the number of shares held by the Trust totalled 5,748,189 (2009: 3,635,119). At 31 March 2010 the market value of these shares was £1.4m (2009: £0.4m) compared to a nominal value of £0.6m (2009: £0.4m). £1.3m has been transferred to the ESOT relating to shares acquired under the Co-Investment Plan.

	2010 £m	2009 £m
Balance at 1 April	5.7	4.5
Acquisition of ordinary shares	0.2	1.2
Transfer of shares	1.3	–
Balance at 31 March	7.2	5.7

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25. Joint venture

a) Background

For the period to 11 December 2009, Workspace Group PLC held 50% of the ordinary share capital of Workspace Glebe Limited. Its interest in this joint venture was equity accounted for in the Group's consolidated financial statements. As the joint venture had net liabilities at 31 March 2009, it was carried at nil value in the balance sheet given there was no commitment to fund the deficit.

On 11 December 2009 Workspace Group PLC acquired the remaining 50% of the share capital of Workspace Glebe Limited from Glebe Two Limited, the former joint venture partner. From this date Workspace Glebe Limited became a wholly-owned subsidiary of Workspace Group PLC.

At the same time Workspace 12 Limited, a subsidiary of Workspace Glebe Limited, issued four ordinary shares to the companies' lenders in consideration for the full release and discharge of £51.4m of its external debt. Workspace Glebe Limited borrowed £15m from Workspace Group PLC, to repay £15m of the remaining debt with the companies' lenders leaving outstanding debt of £68m secured on the investment properties of Workspace Glebe Limited and its subsidiaries.

As part of this restructuring, Workspace entered into a Proceeds Sharing Agreement with the lenders allowing the banks to share in any property disposal proceeds remaining after the repayment of the £68m debt and a priority return to Workspace.

This transaction has been accounted for under the remit of IFRS 3 (revised) 'Business Combinations'. The acquisition has occurred in stages. The revised standard requires that goodwill is determined only at the acquisition date rather than at previous stages. The determination of goodwill requires the previously held equity interest to be adjusted to fair value with any gain or loss recorded in the income statement. Acquisition related costs are expensed to the consolidated income statement. The excess of the consideration transferred over the Group's share of acquisition fair values is recorded as goodwill or where this is less than the fair value of the net assets of the subsidiary in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

b) Group's share of the joint venture assets, liabilities, income and expenses

The Group's share of amounts of each of current assets, long-term assets, current liabilities and long-term liabilities at 11 December 2009 are shown below:

	11 December 2009 £m	31 March 2009 £m
Investment properties	46.5	62.1
Current assets	–	1.2
Total assets	46.5	63.3
Current liabilities	(5.9)	(7.2)
Non-current liabilities	(67.0)	(67.2)
Total liabilities	(72.9)	(74.4)
Net liabilities	(26.4)	(11.1)

The Group's 50% share of the joint venture income and expenses up to 11 December 2009 is shown below:

	Period ended 11 December 2009 £m	Year ended 31 March 2009 £m
Income and expenses:		
Revenue	3.0	4.6
Direct costs	(1.1)	(1.4)
Net rental income	1.9	3.2
Administrative expenses	–	(0.1)
Change in fair value of investment property	(16.2)	(24.8)
Finance costs – interest payable	(2.6)	(4.1)
Change in fair value of derivative financial instruments	0.8	(4.5)
Loss before tax	(16.1)	(30.3)
Taxation	–	(0.3)
Loss after tax	(16.1)	(30.6)

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FOR THE YEAR ENDED 31 MARCH CONTINUED

25. Joint venture continued

c) Fair value adjustments on acquisition

The carrying value prior to acquisition and the applicable fair value adjustments to derive the goodwill calculation upon the business combination of the former Workspace Glebe joint venture is shown below:

	Value pre-business combination £m	Fair value adjustments £m	Fair value on acquisition £m
Investment properties ¹	93.0	3.7	96.7
Current assets	–	–	–
Total assets	93.0	3.7	96.7
Current liabilities ^{2,5}	(50.1)	49.6	(0.5)
Financial derivatives ^{3,5}	(7.8)	3.4	(4.4)
Non-current liabilities ⁴	(133.9)	48.3	(85.6)
Total (liabilities)/assets	(191.8)	101.3	(90.5)
Net (liabilities)/assets	(98.8)	105.0	6.2

Representing:

Group share of joint venture net assets	3.1
Net assets acquired on business combination	3.1

On acquisition the following fair value adjustments have been made:

Notes:

- Adjustment to investment property valuation to reflect the fair value of the investment properties at acquisition from the previous carrying values.
- Adjustment to current liabilities represents the elimination of the shareholder loans of £46.1m in a debt for equity swap and waived interest payments of £3.5m.
- The fair value of the financial derivative held represents the fair value at date of acquisition, reflecting the new nominal principal agreed as part of the refinancing.
- Adjustment to non-current liabilities represents the discharge of £51.4m debt by the lenders, less the expensing of £0.7m of financing costs associated with the original loan which has been deemed to be extinguished upon refinancing and less a priority fee payable by the end of the loan term of £2.4m (see note 21).
- The aggregate of the current liabilities and the financial derivatives include shareholder loans of £46.1m which are not included under equity accounting and therefore are excluded from liabilities in the table in part (b) above.

d) Impact on the Income Statement of the business combination

The adjustments arising on the acquisition of the joint venture and their impact on the Income Statement are shown in the table below:

	Notes	Period ended 11 December 2009 £m
Consideration for acquisition of joint venture ¹		–
Net assets acquired on business combination	25c	3.1
Acquisition related costs		(0.7)
Negative goodwill on business combination ²		2.4
Loss after tax	25b	(16.1)
Revaluation of share in joint venture ³		18.4
Release of interest shortfall guarantee provision		4.4
Share in former joint venture profit/(loss) after tax		6.7
Release of tax indemnity provision	21	5.1
Total credit to the income statement		14.2

Notes:

- The consideration paid for the controlling shares in the joint venture was £1. Acquisition related costs have been expensed.
- Negative goodwill of £2.4m comprises the excess of the additional share of net assets being acquired over the consideration paid upon gaining control of the joint venture in December 2009, less acquisition costs. Negative goodwill has been credited to the Income Statement.
- A revaluation adjustment of £29.5m arises when recognising the fair value of assets acquired of £3.1m (previous book value liability of £26.4m). Of this, £11.1m was recognised in the year ended 31 March 2009 resulting in a revaluation gain of £18.4m in the current year.

From the date of the business combination the contribution to the results of the Group has been a profit of £2.0m (including fair value movements).

If the combination had taken place at the start of the year then the contribution to the results would have been a loss of £27.9m (including fair value movements).

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26. Related party transactions

Transactions between the Group and its former joint venture are set out below. These are related party transactions as defined in IAS24.

	2010 £m	2009 £m
Transactions year ended 31 March:		
Recharges to former joint venture	0.4	0.6
Recharges from former joint venture	(0.1)	(0.1)
Balances with former joint venture at 31 March:		
Amounts receivable from former joint venture	–	0.9
Loan to former joint venture	–	22.3

As from 11 December 2009, the former Workspace Glebe joint venture became a wholly-owned subsidiary of Workspace Group PLC and as such no related party balances are applicable as at 31 March 2010.

27. Capital commitments

At the year end the estimated amounts of contractual commitments for future capital expenditure not provided for were:

	2010 £m	2009 £m
Under contract:		
Purchases, construction or re-development of investment property	0.4	4.2
Repairs, maintenance or enhancement of investment property	1.1	0.7
	1.5	4.9
Authorised by Directors but not contracted :		
Property, plant and equipment	0.1	0.1
Purchases, construction or re-development of investment property	5.6	2.4
Repairs, maintenance or enhancement of investment property	4.4	2.4
	10.1	4.9
	11.6	9.8

28. Contingent liability

Upon restructuring of the former joint venture Workspace Group PLC entered into a proceeds sharing agreement with Workspace Glebe Limited's lenders allowing the banks to share in any property disposal proceeds remaining after the repayment of the £68m debt and priority fee, and also a return to Workspace for the initial consideration of £15m together with any capital expenditure incurred to the date of disposal to the extent not funded by cash flows of Workspace Glebe itself. All disposals are at the option of the Group. This gives rise to a contingent liability based upon the deemed value liable under this proceeds sharing agreement.

At 31 March 2010 the proceeds sharing contingent liability was calculated at £8.4m. This is based on 31 March 2010 valuation of the former joint venture portfolio of £101m.

The impact of this on EPRA NAV per share would be a decrease of 0.7p. This liability will be reviewed at each six-monthly valuation using the same basis to generate a contingent liability under this proceeds sharing agreement.

29. Principal subsidiary undertakings

Except where indicated otherwise, the Company (incorporated in the UK) wholly owns the following active subsidiary undertakings incorporated in the UK and registered in England and Wales, all of which are consolidated in the Group's financial statements:

Name	Nature of business	Share capital (ordinary shares)
Workspace 11 Ltd	Property investment	88,861,629 shares of £1
Workspace 12 Ltd*	Property investment	1,004 shares of 0.1 pence
Workspace 13 Ltd	Property investment	138,769,656 shares of £1
Workspace 14 Ltd*	Property investment	145,568,460 shares of £1
Workspace 15 Ltd	Property investment	37,772,814 shares of £1
Workspace Glebe Ltd	Property investment	2,000,004 shares of £1
Glebe 3 Ltd*	Property investment	1,000,000 shares of £1
Workspace Holdings Ltd	Holding company	2 shares of £1
LI Property Services Ltd	Insurance agents	100 shares of £1
Anyspacedirect.co.uk Ltd	Property advertising	1 share of £1
Workspace Management Ltd	Property management	2 shares of £1

* The share capital of these subsidiaries is held by other group companies.

A full list of subsidiary undertakings at 31 March 2010 will be appended to the Company's next annual return.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH CONTINUED

30. Pension commitments

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge for the year totals £0.5m (2009: £0.5m) representing contributions payable by the Group to the fund and is charged through trading profit.

The Group's commitment with regard to pension contributions range from 6% to 16.5% of an employee's salary and employee contributions range from 3% to 13%. The pension scheme is open to every employee after three months' qualifying service. The number of employees in the scheme at the year end was 103 (2009: 102).

31. Operating lease commitments

The following future minimum lease payments are due under non-cancellable operating leases:

	2010 £m	2009 £m
Motor vehicles:		
Due within one year	0.1	0.1
Due between two and five years	–	0.1
	0.1	0.2

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC (PARENT COMPANY)

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We have audited the Parent Company financial statements of Workspace Group PLC for the year ended 31 March 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Workspace Group PLC for the year ended 31 March 2010.

Bowker Andrews (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 June 2010

PARENT COMPANY BALANCE SHEET

AS AT 31 MARCH

	Notes	2010 £m	2009 £m
Fixed assets			
Investments in subsidiary undertakings	C	248.5	203.0
		248.5	203.0
Current assets			
Debtors	D	94.8	138.5
Creditors: amounts falling due within one year			
	E	(56.0)	(80.1)
Net current assets		38.8	58.4
Total assets less current liabilities		287.3	261.4
Provisions for liabilities and charges	F	-	(9.5)
Net assets		287.3	251.9
Capital and reserves			
Called up share capital	G	114.9	104.6
Share premium account	G	24.7	24.6
Investment in own shares	G	(7.2)	(5.7)
Merger reserve	G	8.7	-
Profit and loss account	G	146.2	128.4
Total shareholders' funds		287.3	251.9

The financial statements were approved by the Board of Directors on 7 June 2010 and were signed on its behalf by:

H Platt
G Clemett
Directors

The notes on page 85 form part of these financial statements.

Workspace Group PLC
Registered number 2041612

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A. Accounting policies

Although the Group consolidated financial statements are prepared under IFRS, the Workspace Group PLC Company financial statements are prepared under UK GAAP. The principal accounting policies of the Company are:

(a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006 and UK Generally Accepted Accounting Principles (UK GAAP). FRS 29 Financial Instruments – Disclosure (the UK GAAP equivalent of IFRS 7 Financial Instruments – Disclosure) has been adopted by the Company, but the disclosure requirements are met in note 17 of the Group financial statements.

(b) Cash flow statement

The Company has taken advantage of the exemption under FRS 1 not to produce a cash flow statement as one is prepared for the Group financial statements.

(c) Investment in subsidiary undertakings

Interests in subsidiary undertakings are carried in the Company's balance sheet at cost less impairment. Impairment in subsidiaries is taken to the profit and loss account.

(d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax assets and liabilities arise from differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

In accordance with FRS 19 deferred tax has been recognised in respect of all timing differences which have originated, but not reversed, by the balance sheet date, except that deferred tax has not been recognised on any potential capital gain where a binding sale commitment is not in place.

The Company has not discounted deferred tax assets and liabilities.

(e) Share schemes

Incentives are provided to employees under share option schemes. The Company has established an Employee Share Ownership Trust (ESOT) to satisfy part of its obligation to provide shares when Group employees exercise their options. The Company provides funding to the ESOT to purchase these shares.

The Company itself has no employees. When the Company grants share options to Group employees as part of their remuneration, the expense of the share options is reflected in a subsidiary undertaking, Workspace Management Limited.

B. Profit/(loss) for the year

As permitted by the exemption in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit attributable to shareholders, before dividend payments, dealt with in the financial statements of the Company was £25.9m (2009: £76.4m loss).

Auditors' remuneration of £10,000 (2009: £10,000) has been borne by a subsidiary undertaking.

Proposed dividends are disclosed in note 7 to the consolidated financial statements.

C. Investment in subsidiary undertakings

	£m
Balance at 1 April 2009	203.0
Additions in the year	30.2
Part reversal of previous impairment	15.3
Balance at 31 March 2010	248.5

During the year the Company acquired 30,227,206 £1 redeemable preference shares in Workspace 13 Ltd as part of an internal loan restructure. The Company also acquired 2 £1 shares in the former joint venture company Workspace Glebe Ltd for £1 as part of a business combination. This Company is now a wholly owned subsidiary.

Refer to note 29 to the consolidated financial statements for the list of subsidiary undertakings.

D. Debtors

	2010 £m	2009 £m
Amounts owed by subsidiary undertakings	94.8	129.7
Amounts owed by related parties	–	8.8
	94.8	138.5

Amounts due from subsidiary undertakings are unsecured and repayable on demand. Interest is charged to subsidiary undertakings.

E. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Amounts owed to subsidiary undertakings	54.4	71.1
Amounts owed to related parties	–	5.5
Taxation and social security payable	0.4	0.4
Corporation tax payable	1.2	0.6
Accruals	–	2.5
	56.0	80.1

Amounts due to subsidiary undertakings are unsecured and repayable on demand. Interest is paid to subsidiary undertakings.

The Company is a guarantor for the external loan facilities of subsidiaries (see note 16 to the consolidated financial statements).

F. Provisions for liabilities and charges

	2010 £m	2009 £m
Balance at 1 April 2009	9.5	19.5
Provision in the year	–	4.4
Release of provision in the year	(9.5)	(14.4)
Balance at 31 March 2010	–	9.5

The provisions released are in relation to a tax indemnity and an interest shortfall guarantee to the former joint venture (refer note 21 of the consolidated financial statements).

G. Capital and reserves

Movements and notes applicable to share capital, share premium account, investment in own shares and merger reserve are shown in notes 22, 23 and 24 of the consolidated financial statements.

Profit and loss account:	£m	
Balance at 1 April 2009	128.4	
Profit for the year	25.9	
Dividends paid	(8.1)	
Balance at 31 March 2010	146.2	

H. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit/(loss) for the financial year	25.9	(76.4)
Dividends paid	(8.1)	(7.8)
Merger reserve arising on share issue	8.7	–
Issue of shares	10.4	81.0
Movement on investment in own shares	(1.5)	(1.2)
Net movement in shareholders' funds	35.4	(4.4)
Opening shareholders' funds	251.9	256.3
Closing shareholders' funds	287.3	251.9