THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the action you should take, you should immediately consult your independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Workspace Group PLC, please hand this document and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of existing shares please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

Workspace Group PLC

(Incorporated and registered in England and Wales under number 2041612)

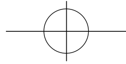
Amendments to articles of association with a view to converting to a Real Estate Investment Trust (REIT)

and

Notice of Extraordinary General Meeting

Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 1 to 3 of this document and which recommends you to vote in favour of the Resolution to be proposed at the Extraordinary General Meeting. Your attention is also drawn to the section entitled “Action to be taken” on page 3 of this document.

Notice of an Extraordinary General Meeting of the Company to be held at the Company’s registered office, Magenta House, 85 Whitechapel Road, London E1 1DU, at 11:00am on Friday, 15 December 2006 is set out at the end of this document. Shareholders will find enclosed with this document a form of proxy for use in connection with the Extraordinary General Meeting. To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach the Company’s registrars, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, by no later than 11:00am on 13 December 2006. Completion and return of a form of proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they choose to do so. Further instructions relating to the form of proxy are set out in the EGM notice at the end of this document.



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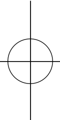

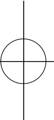

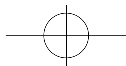

Part 1
Workspace Group PLC

(Incorporated and registered in England and Wales under number 2041612)

Directors:

A Hales *(Non-executive Chairman)*
H Platt *(Chief executive)*
J Bywater *(Non-executive Director)*
M Carragher *(Operations Director)*
B Cragg *(Non-executive Director)*
J P Marples *(Property Director)*
R M Taylor *(Finance Director)*

Registered office:

Magenta House
85 Whitechapel Road
London E1 1DU

To shareholders and, for information only, to stockholders and holders of share options

20 November 2006

Dear Shareholder,

Proposals to amend the Company's articles of association with a view to converting to a Real Estate Investment Trust (REIT)

As reported both in my statements in the 2006 annual report and more recently in the Company's June quarterly statement, your Board has monitored the Government's progress towards the establishment of a REIT market in the United Kingdom. Your Board believes that there are substantial advantages to shareholders that may be obtained from conversion to a REIT, with few attendant disadvantages, none of which impedes the strategy of the Company and its subsidiaries (the "**Group**").

The proposed amendments to the articles of association of the Company (the "**Articles**") are being made in connection with such conversion, and this circular sets out why the Board thinks that such amendments are in the best interests of shareholders as a whole. Set out at the end of this circular is a notice convening an extraordinary general meeting (the "**EGM**") at which the proposed amendments to the Articles are to be submitted for approval. The EGM will be held at the Company's registered office on 15 December 2006 at 11:00am. There is also enclosed a form of proxy to enable you to vote on the resolution should you be unable to attend the meeting.

The Board is proposing to convert the Group into a REIT in order to benefit from the provisions contained in Part 4 of the Finance Act 2006 and the related regulations (the "**REIT regime**"). The amendments proposed to be made to the Articles are required for the Company to be confident that it will not become subject to certain additional tax charges provided under the REIT regime. Shareholders should note that the decision to convert the Group into a REIT is a matter for the Board, acting in the interests of the Company, and is not reliant upon the proposed amendments to the Articles being approved. The purpose of the proposed amendments is to minimise the risk of the Company attracting a tax charge in the event of certain distributions to substantial shareholders (as described in more detail below).

At the time this letter is written, the detailed guidance on the REIT regime has not yet been published by HM Revenue and Customs ("**HMRC**"). The Board will review the guidance when it is published, and will re-consider the conversion to a REIT if there are material implications that the Board considers would be adverse for the Company or would affect the consequences of conversion for shareholders in a way that is materially different to that described in this document. It is not anticipated that this will be the case.

By converting to REIT status, the Group will no longer pay UK direct tax on the profits and gains from their qualifying property rental businesses in the UK and elsewhere provided that they meet certain conditions. Non-qualifying profits and gains of the Group will continue to be subject to corporation tax as normal.

On entering the regime, each UK resident body corporate that is a member of the Group that carries on a qualifying property rental business in the UK or overseas and any non-UK resident member of the Group that carries on a qualifying property rental business in the UK will be subject to an entry tax charge approximately equal to 2 per cent. of the aggregate market value of the properties and other assets involved in that business immediately prior to entry into the REIT regime.

A REIT will be required to distribute to shareholders (by way of dividend), on or before the filing date for its tax return for the accounting period in question, at least 90 per cent. of the income profits (broadly, calculated using normal tax rules) of the UK-resident members of the Group in respect of their Tax-Exempt Business and of the non-UK resident members of the Group insofar as they derive from their UK qualifying property rental business arising in each accounting period.

Under the REIT regime, a tax charge may be levied if the Company makes a distribution to a company which is beneficially entitled (directly or indirectly) to 10 per cent. or more of the shares or dividends of the Company or controls (directly or indirectly) 10 per cent. or more of the voting rights of the Company unless the Company has taken reasonable steps to avoid such a distribution being paid. The amendments proposed to be made to the Articles are intended to give the Board the powers it needs to demonstrate to HMRC that such "reasonable steps" have been taken. These proposals are consistent with the draft guidance published by HMRC.

Part 2 contains a general overview of the REIT regime.

Shareholders should note that conversion of the Group into a REIT will affect their tax position. Part 3 contains a summary of the UK tax treatment of shareholders after entering into the REIT regime.

Part 4 contains a description of the proposed amendments to the Company's articles of association.

Implications of REIT status for the Group

Introduction of the REIT regime will eliminate the difficulties associated with the double taxation of earnings from real estate held indirectly through a company, and so encourage a wider indirect investment in real estate. In return for REITs being released from taxation on property income profits and capital gains on disposals of these property assets, REITs will be obliged to operate within a regulated code (i.e. the REIT regime) and to distribute 90 per cent. or more of their net property income to shareholders. As may be seen from the following table, your Company already meets all of the conditions to entry into the REIT regime, and your Board considers that the **entrance into the REIT regime by the Group should not impede the delivery of the Group's strategic goals.**

UK resident, listed non-open ended investment company with single share class and no participating loans	✔
Property rental business with at least 3 properties and no property over 40 per cent. of value	✔
Property not owner occupied	✔
Profits and assets in REIT activities at least 75 per cent. of Group totals	✔ (both over 90 per cent.)
Not a close company, and no shareholders beneficially holding in excess of 10 per cent. of the shares	✔
Interest covered 1.25 times or more	✔

As may be seen from the Group's interim statement, released today, as at 30 September 2006 the Group's liability to deferred taxation was approximately £141 million. For illustrative purposes, if the Group's entire portfolio had been sold at that point then, after indexation allowances, the charge to tax would have been approximately £111 million. Within the REIT regime, this charge to tax would not accrue, and so the Group's net worth would increase from approximately £438 million to £579 million, or from approximately 258 pence per share to 341 pence per share. Going forward as a REIT, the Group would not be liable to capital gains tax and so disposals will not attract a tax charge, either current or deferred. It is anticipated that 10 per cent. or more of the Group's deferred tax liability would be triggered by planned disposals over the next two years, and so, allowing for taxation on trading profits, **payback of the transfer charge is short.**

As noted above, dividend distributions should increase if the Group is within the REIT regime. If the Company had been a REIT in the financial year ended 31 March 2006, the distribution level (on the basis of a 90 per cent. distribution) would have been approximately 2.1 times that actually distributed (based on the interim and final dividends paid in respect of that year). However, due to the omitted tax liabilities, the retained surplus transferred to reserves would only have been depleted by 20 per cent. Going forward, any dividend distribution would continue to be substantially more than if the Group were not within the REIT regime, but, with the planned substantial disposals referred to above, the depletion of retained earnings would be less significant. Indeed, as noted earlier, your Board considers that this increase in distribution will have little or no effect on the delivery of the Group's strategic objectives. **Your Board anticipates that, as a REIT, not only will the level of the Company's distributions be greater, but the growth rate will be in line with that hitherto.**

There is a cost for these benefits. Companies converting into the REIT regime will be required to pay a conversion charge of 2 per cent. of their portfolio valuation. Assuming a portfolio on conversion of £950 million (30 September 2006: £930 million, excluding the 50 per cent. of the Workspace-Glebe joint venture portfolio), then the tax charge would be approximately £19.0 million. However, as noted above, due to the latent tax liabilities arising both from capital gains on disposals and through ordinary trading, the payback on this sum is anticipated to be relatively short.

Your Board has given careful consideration to the timing of entrance into the REIT regime. Companies who fulfil the conditions for entrance into the REIT regime will be permitted to convert to REIT status from 1 January 2007. Given the very substantial benefits arising from conversion, **your Board considers that the Group should convert at the earliest opportunity**. Accordingly, the intention is for the Group to enter into the REIT regime from 1 January 2007.

Exit from the REIT regime

The Company can give notice to HMRC that it wants the Group to leave the REIT regime at any time. The Board retains the right to decide to exit the REIT regime at any time in the future without shareholder consent if it considers this to be in the best interests of the Company.

If the Group voluntarily leaves the REIT regime within ten years of joining and disposes of any property or other asset that was involved in its qualifying property rental business in the UK within two years of leaving, any uplift in the base cost of the property as a result of the deemed disposal on entry into the REIT regime is disregarded in calculating the gain or loss on the disposal. However, there is no repayment of the entry charge in these circumstances.

It is important to note that the Company cannot guarantee continued compliance with all of the REIT conditions and that the REIT regime may cease to apply in some circumstances. HMRC may require the Group to exit the REIT regime if:

(a) it regards a breach of the conditions, failure to satisfy the conditions relating to the Tax-Exempt Business, or an attempt by the Group to avoid tax, as sufficiently serious;

(b) the Company has committed a certain number of minor or inadvertent breaches in a specified period; or

(c) HMRC has given the Company two or more notices in relation to the avoidance of tax within a ten year period.

In addition, if the conditions for REIT status relating to the share capital of the Company and the prohibition on entering into loans with abnormal returns are breached or the Company ceases to be UK resident, becomes dual resident or an open-ended company, ceases to be listed or (in certain circumstances) ceases to fulfil the close company condition (which is described in Part 2), the Group will automatically lose REIT status. Where the Group is required to leave the REIT regime within ten years of joining, HMRC has wide powers to direct how it is to be taxed, including in relation to the date on which the Group is treated as exiting the REIT regime.

Shareholders should note that it is possible that the Group could lose its status as a REIT as a result of actions by third parties (for example, in the event of a successful takeover by a company that is not a REIT) or due to a breach of the close company condition (described in Part 2) if it is unable to remedy the breach within a specified time frame. Circumstances outside the Group's control could also give rise to loss of REIT status.

Recommendation

Your Board considers that the resolution to be proposed at the EGM is in the best interests of shareholders as a whole and unanimously recommends shareholders to vote in favour of the resolution, as the Directors intend to do in respect of their own beneficial shareholdings which amount in aggregate to 1,501,483 ordinary shares, representing approximately 0.9 per cent. of the issued share capital of the Company.

Action to be taken

The EGM will be held at the Company's registered office, Magenta House, 85 Whitechapel Road, London E1 1DU on Friday, 15 December 2006 at 11:00am. Only holders of ordinary shares are entitled to attend and vote at the EGM. A form of proxy for use by holders of ordinary shares is enclosed. You are requested to complete the form in accordance with the instructions thereon and return it to the Company's registrars, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, as soon as possible but, in any event, so that it arrives not later than 48 hours before the time appointed for the holding of the meeting. If you complete and return the proxy form, you can still attend and vote at the meeting if you wish.

Yours sincerely,

Tony Hales
Chairman

Part 2
THE REIT REGIME

The following paragraphs are intended as a general guide only and constitute a high-level summary of the Company's understanding of current UK law and HMRC practice, each of which are subject to change, possibly with retrospective effect. They are not advice. As at the date of this document, HMRC's detailed guidance on the REIT regime has not yet been published. This guidance could change the position described below.

Overview

The REIT regime introduced in the Finance Act 2006 is intended to encourage greater investment in the UK property market and follows similar legislation in other European countries, as well as the long-established regimes in the United States, Australia and the Netherlands.

In this Part 2, "**Group**" means a body corporate and all of its "75 per cent. subsidiaries" and any of their 75 per cent. subsidiaries and so on, provided that the principal company in the group is beneficially entitled to more than 50 per cent. of the subsidiary's profits which are available for distribution to equity holders of the subsidiary, and more than 50 per cent. of any assets of the subsidiary available for distribution to its equity holders on a winding-up, and excluding insurance companies as defined in section 431(2) of the Income and Corporation Taxes Act 1988 ("**ICTA**") and their subsidiaries. A body corporate is a "75 per cent. subsidiary" of another if the other is the beneficial owner (directly or indirectly) of at least 75 per cent. of its ordinary share capital.

Currently, investing in property through a corporate investment vehicle (such as the Company) has the disadvantage that, in comparison to a direct investment in property assets, some categories of shareholder (but not UK companies) effectively suffer tax twice on the same income – first, indirectly, when members of the Group pay UK direct tax on their profits, and secondly, directly (but with the benefit of a tax credit) when the shareholder receives a dividend. Non-tax paying entities, such as UK pension funds, suffer tax indirectly, when investing through a corporate vehicle that is not a REIT, which they would not suffer if they were to invest directly in the property assets. As a REIT, UK resident Group members and non-UK resident Group members with a UK qualifying property rental business would no longer pay UK direct taxes on their income and capital gains from their qualifying property rental businesses in the UK and elsewhere (the "**Tax-Exempt Business**"), provided that certain conditions are satisfied. Instead, distributions in respect of the Tax-Exempt Business will be treated for UK tax purposes as UK property income in the hands of shareholders. Part 3 contains further detail on the United Kingdom tax treatment of shareholders after entry into the REIT regime. However, corporation tax will still be payable in the normal way in respect of income and gains from the Group's business (generally including any property trading business) which is not included in the Tax-Exempt Business (the "**Residual Business**").

In this Part 2, "**property rental business**" means a Schedule A business within the meaning of section 832(1) ICTA or an overseas property business within the meaning of section 70A(4) ICTA but, in each case, excluding certain specified types of business. A "**qualifying property rental business**" means a property rental business fulfilling the conditions in section 107 of the Finance Act 2006.

While within the REIT regime, the Tax-Exempt Business will be treated as a separate business to the Residual Business for corporation tax purposes and a loss incurred by the Tax-Exempt Business cannot be set off against profits of the Residual Business (and vice versa).

The principal company of a REIT will be required to distribute to shareholders (by way of dividend), on or before the filing date for the principal company's tax return for the accounting period in question, at least 90 per cent. of the income profits (broadly, calculated using normal tax rules) of the UK-resident members of the Group in respect of their Tax-Exempt Business and of the non-UK resident members of the Group insofar as they derive from their UK qualifying property rental business arising in each accounting period. Failure to meet this requirement will result in a tax charge calculated by reference to the extent of the failure, although this charge can be avoided if an additional dividend is paid within a specified period which brings the amount of profits distributed up to the required level.

In this document, references to a company's accounting period are to its accounting period for tax purposes. This period can differ from a company's accounting period for other purposes.

A dividend received by a shareholder of the Company in respect of profits and gains of the Tax-Exempt Business of the UK resident members of the Group, accrued whilst the Group is a REIT, or in respect of the profits or gains of a non-UK resident member of the Group accrued whilst the Group is a REIT, insofar as they derive from their UK qualifying property rental business, is referred to in this circular as a "**Property Income Distribution**" or "**PID**". Any other dividend received by a shareholder of the Company will be referred to as a "**Non-PID Dividend**".

The treatment of a dividend paid by the principal company in the Group in the first year after it becomes a REIT should depend on whether it is paid out of profits that existed before or after the Group became a REIT. The Company will provide shareholders with a certificate setting out how much of their dividend is a PID and how much is a Non-PID Dividend.

Subject to certain exceptions, Property Income Distributions will be subject to withholding tax at the basic rate of income tax (currently 22 per cent.). Further details of the United Kingdom tax treatment of shareholders after entry into the REIT regime are contained in Part 3.

Qualification as a REIT

A group becomes a REIT by the principal company in the Group serving notice on HMRC before the beginning of the first accounting period for which it wishes the group members to become a REIT. In order to qualify as a REIT, the principal company and the REIT Group must satisfy certain conditions set out in the Finance Act 2006. A non-exhaustive summary of the material conditions is set out below. Broadly, the principal company must satisfy the conditions set out in paragraphs (a), (b), (c) and (d) below and the Group as a whole must satisfy the condition set out in paragraph (e) below.

(a) Company conditions

The principal company must be a solely UK-resident, closed-ended company whose ordinary shares are listed on a recognised stock exchange, such as the London Stock Exchange. The principal company must also not (apart from in one exceptional circumstance) be a "close company" (as defined in section 414 of the ICTA, as amended by section 106(6) of the Finance Act 2006 (the "**close company condition**")). In summary, the close company condition amounts to a requirement that not less than 35 per cent. of the principal company's shares are beneficially held by the public and for this purpose the 'public' excludes directors of the principal company and certain of their associates, and shareholders who, alone or together with certain associates, control more than 5 per cent. of the principal company's share capital.

(b) Share capital restrictions

The principal company must have only one class of ordinary shares in issue and the only other shares it may issue are non-voting fixed rate preference shares.

(c) Restrictions on types of borrowing

The principal company must not be party to any loan in respect of which the lender is entitled to interest which exceeds a reasonable commercial return on the consideration lent or where the interest depends to any extent on the results of any of its business or on the value of any of its assets. In addition, the amount repayable must either not exceed the amount lent or must be reasonably comparable with the amount generally repayable (in respect of an equal amount lent) under the terms of issue of securities listed on a recognised stock exchange.

(d) Financial statements

The principal company must prepare financial statements ("**Financial Statements**") in accordance with statutory requirements and submit these to HMRC. The Financial Statements must contain the information about the Tax-Exempt Business and the Residual Business separately. The REIT regime specifies the information to be included and the basis of preparation of the Financial Statements.

(e) Conditions for the Tax-Exempt Business

The Tax-Exempt Business must satisfy the conditions summarised below in respect of each accounting period during which the Group is to be treated as a REIT:

(i) the Tax-Exempt Business must throughout the accounting period involve at least three properties;

(ii) throughout the accounting period no one property may represent more than 40 per cent. of the total value of all the properties involved in the Tax-Exempt Business. Assets must be valued in accordance with International Accounting Standards ("**IAS**") and at fair value when IAS offers a choice between a cost basis and a fair value basis;

(iii) treating all members of the Group as a single company, the Tax-Exempt Business must not include any property which is classified as owner-occupied in accordance with generally accepted accounting practice; and

(iv) at least 90 per cent. of the amounts shown in the Financial Statements of the Group members as income profits (broadly, calculated using normal tax rules) of the UK resident members of the Group arising in respect of

their Tax-Exempt Business in the accounting period, and the income profits of the non-UK resident members of the Group insofar as they arise in respect of such members' UK qualifying property rental business in the accounting period, must (to the extent permitted by law) be distributed to shareholders of the principal company of the REIT in the form of a dividend (a PID) on or before the filing date for the principal company's tax return for the accounting period (the "**90 per cent. distribution test**"). For the purpose of satisfying the 90 per cent. distribution test, any dividend withheld in order to comply with the 10 per cent. rule (as described in paragraph (c) of the section entitled "Effect of becoming a REIT" below) will be treated as having been paid;

(v) the income profits arising from the qualifying property rental business must represent at least 75 per cent. of the Group's total profits for the accounting period (the "**75 per cent. profits test**"). Profits for this purpose means profits calculated in accordance with IAS, before deduction of tax and excluding realised and unrealised gains and losses on the disposal of property (for example, gains and losses on the disposal of property and gains and losses on the revaluation of properties) and certain exceptional items; and

(vi) at the beginning of the accounting period the value of the assets in the qualifying property rental business must represent at least 75 per cent. of the total value of assets held by the Group (the "**75 per cent. assets test**"). Assets must be valued in accordance with IAS and at fair value where IAS offers a choice of valuation between cost basis and fair value. In applying this test no account is to be taken of liabilities secured against or otherwise relating to assets (whether generally or specifically).

Effect of becoming a REIT

(a) Entry charge

Each UK resident member of the Group that carries on a qualifying property rental business in the UK or overseas and any non-UK resident member of the Group that carries on a qualifying property rental business in the UK will be liable to pay an entry charge broadly equal to 2 per cent. of the aggregate market value of the properties and other assets involved in that business.

This can be paid at the same time as corporation tax is payable in respect of the first accounting period following entry into the REIT regime. The entry charge is payable in line with the normal dates for payment of corporation tax applicable in the period in which REIT conversion takes place, with an option to pay in instalments over a four year period. There is no equivalent entry charge if a member of the Group buys a property following entering into the REIT regime. However, if the Group were to acquire a company that is not a REIT, a similar entry charge will apply in respect of the property owned by the acquired company. See also paragraph (l) below – "Acquisitions and takeovers".

(b) Tax savings

As a REIT, the Group will not pay UK direct tax on profits and gains from the Tax-Exempt Business. Corporation tax will still apply in the normal way in respect of the Residual Business which includes certain trading activities, incidental letting in relation to property trades, intra-group letting of property, letting of administrative property which is temporarily surplus to requirements and certain income such as dividends from other UK REITs. Corporation tax could also be payable were a member of the Group (as opposed to property involved in the UK qualifying property rental business) to be sold. The Group would also continue to pay indirect taxes such as VAT, stamp duty land tax, stamp duty and payroll taxes (such as national insurance) in the normal way.

(c) The "10 per cent. rule"

The principal company of a REIT may become subject to an additional tax charge if it pays a dividend to, or in respect of, a person beneficially entitled, directly or indirectly, to 10 per cent. or more of the principal company's dividends or share capital or that controls, directly or indirectly, 10 per cent. or more of the voting rights in the principal company. Shareholders should note that this tax charge only applies where a dividend is paid to persons that are companies for the purposes of section 832(1) ICTA and to certain entities which are deemed to be bodies corporate for the purposes of overseas jurisdictions with which the UK has a double taxation agreement or for the purposes of such double tax agreements.

This tax charge will not be incurred if the principal company has taken reasonable steps to avoid paying dividends to such a person. Draft HMRC guidance describes certain actions that might be taken to show it has taken such "reasonable steps". One of these actions is to include restrictive provisions in the principal company's articles of association to address this requirement. The proposed amendments to the articles of association of the Company are consistent with the provisions described in the draft HMRC guidance.

(d) *Dividends*

Subject as mentioned in the section entitled "Overview" above, when the principal company of a REIT pays a dividend, that dividend will be a PID to the extent necessary to satisfy the 90 per cent. distribution test. If the dividend exceeds the amount required to satisfy that test, the REIT may determine that all or part of the balance is a Non-PID Dividend paid out of the profits of the activities of the Residual Business. Any remaining balance of the dividend (or other distribution) will be deemed to be a PID, first in respect of the income profits out of which a PID can be paid and have been distributed in full, and then in respect of certain capital gains which are exempt from tax by virtue of the REIT regime. Any remaining balance will be attributed to other distributions.

If the Group ceases to be a REIT, dividends paid by the principal company may nevertheless be PIDs for a transitional period to the extent that they are paid in respect of profits and gains of the Tax-Exempt Business of the UK resident members of the Group, accrued whilst the Group is a REIT, or in respect of the profits or gains of a non-UK resident member of the Group accrued whilst the Group is a REIT, insofar as they derive from their UK qualifying property rental business.

(e) *Financial statements*

As mentioned above, a REIT will be required to submit to Financial Statements to HMRC.

(f) *Interest cover ratio*

A tax charge will arise if, in respect of any accounting period, the ratio of the income profits (before capital allowances) of the UK resident members of the Group plus the UK income profits of any non-UK resident member of the Group, in each case, in respect of its Tax-Exempt Business plus the financing costs incurred in respect of the Tax-Exempt Business of the Group, to the financing costs incurred in respect of the Tax-Exempt Business of the Group, excluding certain intra-group financing costs, is less than 1.25. This ratio is calculated by reference to the Financial Statements. The amount (if any) by which the financing costs exceeds the amount of those costs which would cause that ratio to equal 1.25 is chargeable to corporation tax.

(g) *Property development and property trading by a REIT*

A property development by a member of the Group can be within the Tax-Exempt Business provided certain conditions are met. However, if the costs of the development exceed 30 per cent. of the fair value of the asset at the later of: (a) the date on which the relevant company becomes a member of a REIT; and (b) the date of the acquisition of the development property, and the REIT sells the development property within three years of completion, the property will be treated as never having been within the Tax-Exempt Business. If a member of the Group disposes of a property (whether or not a development property) in the course of a trade, the property will be treated as never having been within the Tax-Exempt Business.

(h) *Certain tax avoidance arrangements*

If HMRC believes that a member of the Group has been involved in certain tax avoidance arrangements, it may cancel the tax advantage obtained and, in addition, impose a tax charge equal to the amount of the tax advantage. These rules apply to both the Residual Business and the Tax-Exempt Business.

(i) *Movement of assets in and out of Tax-Exempt Business*

In general, where an asset owned by a UK-resident member of the Group and used for the Tax-Exempt Business begins to be used for the Residual Business, there will be a capital gain tax-free step up in the base cost of the property. Where an asset owned by a UK-resident member of the Group and used for the Residual Business begins to be used for the Tax-Exempt Business, this will generally constitute a taxable market value disposal of the asset, except for capital allowances purposes. Special rules apply to disposals by way of a trade and to development property.

(j) *Funds awaiting reinvestment*

Where an asset used exclusively in the Tax-Exempt Business is sold, the legislation provides for the sale proceeds to be treated as assets of the Tax-Exempt Business for the purposes of the 75 per cent. assets test for two years following the disposal, provided that they are held as cash or cash equivalents. However, any interest earned on that cash is treated as part of the Residual Business and therefore taxable.

(k) *Joint ventures*

If one or more members of the Group are beneficially entitled, in the aggregate, to at least 40 per cent. of the profits available for distribution to equity holders in a joint venture company and at least 40 per cent. of the assets of the

joint venture company available to equity holders in the event of a winding-up, that joint venture company (the "**JV company**") is carrying on a qualifying property rental business which satisfies the 75 per cent. profits test and the 75 per cent. assets test and certain other conditions are satisfied, the REIT may, by giving notice to HMRC, elect for the assets and income of the JV company to be included in the Tax-Exempt Business. In such circumstances, the income of the JV company will count towards the 90 per cent. distribution test and the 75 per cent. profits test and its assets will count towards the 75 per cent. assets test and the entry charge, in each case to the extent of the Group's interest in the JV company.

As at the date of this circular, the regulation relating to joint ventures and REITs does not specifically apply to any subsidiaries of a JV company, although it is currently hoped that this will be the case. Guidance or other further information to clarify the position for joint ventures carried on through other types of entity will be provided by HMRC.

(l) *Acquisitions and takeovers*

If a member of the Group acquires another REIT, no entry charge will be payable. However, if a company which is not a REIT joins the Group, the entry charge will be payable on the qualifying property rental business of the target company.

If a REIT is taken over by another REIT, the acquired REIT does not necessarily cease to be a REIT and will, provided the conditions are met, continue to enjoy tax exemptions in respect of the profits of its Tax-Exempt Business and capital gains on disposal of properties in the Tax-Exempt Business. There is no entry charge as a result of the acquired REIT joining the acquiror's group and the properties of the acquired REIT are not treated as having been sold and reacquired at market value.

The position is different where a REIT is taken over by an acquiror which is not a REIT. In these circumstances, the acquired REIT is likely in most cases to fail to meet the requirements for being a REIT and will therefore be treated as leaving the REIT regime at the end of its accounting period preceding the takeover and ceasing from the end of that accounting period to benefit from tax exemptions on the profits of its Tax-Exempt Business and capital gains on disposal of property forming part of its Tax-Exempt Business. The properties in the Tax-Exempt Business are treated as having been sold and reacquired at market value for the purposes of corporation tax on chargeable gains immediately before the end of the preceding accounting period. These disposals should be tax free as they are deemed to have been made at a time when the Company was still in the REIT regime and future capital gains on the relevant assets will therefore be calculated by reference to a base cost equivalent to this market value. If the Company ends its accounting period immediately prior to the takeover becoming unconditional in all respects, dividends paid as PIDs before that date should not be recharacterised retrospectively as normal dividends.

Part 3
UNITED KINGDOM TAX TREATMENT OF SHAREHOLDERS AFTER ENTRY INTO THE REIT REGIME

Introduction

The following paragraphs are intended as a general guide only and are based on the Company's understanding of current UK tax law and HMRC practice, each of which is subject to change, possibly with retrospective effect. They are not advice. As at the date of this document, the detailed guidance to be published by HMRC has not yet been finalised. This guidance could change the position described below.

The following paragraphs relate only to certain limited aspects of the United Kingdom taxation treatment of PIDs and Non-PID Dividends paid by the Company, and to disposals of shares in the Company, in each case after the Company becomes a REIT. Except where otherwise indicated, they apply only to shareholders who are both resident and ordinarily resident for tax purposes solely in the United Kingdom. They apply only to shareholders who are the absolute beneficial owners of both their PIDs and their shares in the Company and who hold their shares as investments. They do not apply to Substantial Shareholders, as defined in Part 4. They do not apply to certain categories of shareholders, such as dealers in securities or distributions, persons who have or are deemed to have acquired their shares by reason of their or another's employment, persons who hold their shares as part of hedging or conversion transactions, or persons who hold their shares in connection with a UK branch, agency or permanent establishment, persons who hold their shares by virtue of an interest in any partnership, collective investment scheme, insurance company, life assurance company, mutual company or Lloyds members. Except where otherwise indicated at paragraph (d)(iv) of the section entitled "UK taxation of PIDs", they do not apply to charities, trustees or pension scheme administrators.

Shareholders who are in any doubt about their tax position, or who are subject to tax in a jurisdiction other than the United Kingdom, should consult their own appropriate independent professional adviser without delay, particularly concerning their tax liabilities on PIDs, whether they are entitled to claim any repayment of tax, and, if so, the procedure for doing so.

UK taxation of non-PID dividends

Non-PID Dividends paid by the Company will be taxed in the same way as dividends paid by the Company prior to entry into the REIT regime, whether in the hands of individual or corporate shareholders and regardless of whether the shareholder is resident for tax purposes in the UK.

UK taxation of PIDs

(a) *UK taxation of shareholders who are individuals*

Subject to certain exceptions, a PID will generally be treated in the hands of shareholders who are individuals as the profit of a single UK property business (as defined in section 264 of the Income Tax (Trading and Other Income) Act 2005). A PID is, together with any property income distribution from any other company to which Part 4 of the Finance Act 2006 applies, treated as a separate UK property business from any other UK property business (a "**different UK property business**") carried on by the relevant shareholder. This means that surplus expenses from a shareholder's different UK property business cannot be off-set against a PID as part of a single calculation of the profits of the shareholder's UK property business.

Please see also paragraph (d) (Withholding tax) below.

(b) *UK taxation of corporate shareholders*

Subject to certain exceptions, a PID will generally be treated in the hands of shareholders who are within the charge to corporation tax as profit of a Schedule A business (as defined in section 15 of ICTA). This means that, subject to the availability of any exemptions or reliefs, such shareholders should be liable to corporation tax on income on the entire amount of their PID. A PID is, together with any property income distribution from any other company to which Part 4 of the Finance Act 2006 applies, treated as a separate Schedule A business from any other Schedule A business (a "**different Schedule A business**") carried on by the relevant shareholder. This means that any surplus expenses from a shareholder's different Schedule A business cannot be off-set against a PID as part of a single calculation of the shareholder's Schedule A profits.

Please see also paragraph (d) (Withholding tax) below.

(c) *UK taxation of shareholders who are not resident for tax purposes in the UK*

Where a shareholder who is resident outside the UK receives a PID, the PID will generally be chargeable to UK income tax as profit of a UK property business and this tax will generally be collected by way of a withholding.

Please see also paragraph (d) (Withholding tax) below.

(d) *Withholding tax*

(i) General

Subject to certain exceptions summarised at paragraph (iv) below, the Company is required to withhold tax at source at the basic rate (currently 22 per cent.) from its PIDs. The Company will provide shareholders with a certificate setting out the gross amount of the PID, amount of tax withheld, and the net amount of the PID.

(ii) Shareholders solely resident and ordinarily resident in the UK

Where tax has been withheld at source, shareholders who are individuals may, depending on their individual circumstances, either be liable to further tax on their PID at their applicable marginal rate, or be entitled to claim repayment of some or all of the tax withheld on their PID. Shareholders who are corporates may, depending on their individual circumstances, be liable to pay corporation tax on their PID but they should note that, where income tax is withheld at source, the tax withheld can be set against their liability to corporation tax or income tax which they are required to withhold in the accounting period in which the PID is received.

(iii) Shareholders who are not resident for tax purposes in the UK

It is not possible for a shareholder to make a claim under a double taxation treaty for a PID to be paid by the Company gross or at a reduced rate. The right of a shareholder to claim repayment of any part of the tax withheld from a PID will depend on the existence and terms of any double tax convention between the UK and the country in which the shareholder is resident.

(iv) Exceptions to requirement to withhold income tax

Shareholders should note that in certain circumstances the Company must not withhold income tax at source from a PID. These include where the Company reasonably believes that the person beneficially entitled to the PID is: a company resident for tax purposes in the UK, a charity or a body mentioned in section 507(1) ICTA which is allowed the same exemption from tax as charities. They also include where the Company reasonably believes that the PID is paid to the scheme administrator of a registered pension scheme, the sub-scheme administrator of certain pension sub-schemes, the account manager of an Individual Savings Account (ISA), the plan manager of a Personal Equity Plan (PEP), or the account provider for a child trust fund, in each case, provided the Company reasonably believes the PID will be applied for the purposes of the relevant fund, scheme, account or plan.

In order to pay a PID without withholding tax, the Company will need to be satisfied that the shareholder concerned is entitled to that treatment. For that purpose, the Company will require such shareholders to submit a valid claim form (copies of which may be obtained on request from the Company's registrars, Computershare Services PLC). Shareholders should note that the Company may seek recovery from shareholders if the statements made in their claim form are incorrect and the Company suffers tax as a result. The Company will, in some circumstances, suffer tax if its reasonable belief as to the status of the shareholder turns out to have been mistaken.

UK taxation of chargeable gains, stamp duty and stamp duty reserve tax in respect of shares in the Company

Subject to the paragraph headed "Introduction" above, the following comments apply to both individual and corporate shareholders, regardless of whether or not such shareholders are resident for tax purposes in the UK.

(a) *UK taxation of chargeable gains*

Chargeable gains arising on the disposal of shares in the Company following entry into the REIT regime should be taxed in the same way as chargeable gains arising on the disposal of shares in the Company prior to entry into the REIT regime. The entry of the Group into the REIT regime will not constitute a disposal of shares in the Company by shareholders for UK chargeable gains purposes.

(b) *UK stamp duty and UK stamp duty reserve tax*

A conveyance or transfer on sale or other disposal of shares in the Company following entry into the REIT regime will be subject to UK stamp duty or stamp duty reserve tax in the same way as it would have been prior to entry into the REIT regime.

Part 4
DESCRIPTION OF THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As explained in the letter from the Chairman, it is proposed that the Articles should be amended in order to enable the Company to demonstrate to HMRC that it has taken reasonable steps to avoid paying a dividend (or making any other distribution) to a Substantial Shareholder. For these purposes a "**Substantial Shareholder**" is a company that:

- is beneficially entitled, directly or indirectly, to 10 per cent. or more of the Company's dividends;
- is beneficially entitled, directly or indirectly, to 10 per cent. or more of the Company's share capital; or
- controls, directly or indirectly, 10 per cent. or more of the voting rights of the Company.

For these purposes of the above definition, "**company**" includes any body corporate and certain entities which are deemed to be bodies corporate for the purposes of overseas jurisdictions with which the UK has a double taxation agreement or for the purposes of such double tax agreements.

If a distribution is paid to a Substantial Shareholder and the Company has not taken reasonable steps to avoid doing so, the Company would become subject to a tax charge.

The proposed amendments to the Articles involve the insertion of a new article (the "**new Article**"). **No other amendments are being made to the Articles.**

The new Article:

(a) provides directors with powers to identify Substantial Shareholders;

(b) prohibits the payment of dividends on shares that form part of a Substantial Shareholding, unless certain conditions are met;

(c) allows dividends to be paid on shares that form part of a Substantial Shareholding where the shareholder has disposed of its rights to dividends on its shares; and

(d) seeks to ensure that if a dividend is paid on shares that form part of a Substantial Shareholding and arrangements of the kind referred to in paragraph (C) below are not met, the Substantial Shareholder concerned does not become beneficially entitled to that dividend.

References in this Part 4 to a "**Substantial Shareholding**" are to the shares in respect of which a Substantial Shareholder is entitled to dividends, directly or indirectly, and/or to which a Substantial Shareholder is beneficially entitled, directly or indirectly; and/or the votes attached to which are controlled, directly or indirectly, by the Substantial Shareholder. References in this Part 4 to dividends include other distributions.

The effect of the new Article is explained in more detail below:

(A) Identification of Substantial Shareholders

The share register of the Company records the legal owner and the number of shares they own in the Company but does not identify the persons who are beneficial owners of the shares or are entitled to control the voting rights attached to the shares or are beneficially entitled to dividends. While the requirements for the notification of interests in shares provided in Part VI of the Companies Act 1985 (the "**Act**") and the Board's rights to require disclosure of such interests (pursuant to section 212 of the Act and Article 80 of the Articles) should assist in the identification of Substantial Shareholders, those provisions are not on their own sufficient.

Accordingly, the new Article would require a Substantial Shareholder and any registered shareholder holding shares on behalf of a Substantial Shareholder to notify the Company if his shares form part of a Substantial Shareholding. Such a notice must be given within two business days. If a person is a Substantial Shareholder at the date the new Article is adopted, that Substantial Shareholder (and any registered shareholder holding shares on its behalf) must give such a notice within two business days after the date the new Article is adopted. The new Article gives the Board the right to require any person to provide information in relation to any shares in order to determine whether the shares form part of a Substantial Shareholding. If the required information is not provided within the time specified (which would be seven days after a request is made or such other period as the Board may decide), the Board would be

entitled to impose sanctions, including withholding dividends (as described in paragraph (B) below) and/or requiring the transfer of the shares to another person who is not, and does not thereby become, a Substantial Shareholder (as described in paragraph (E) below).

(B) Preventing payment of a dividend to a Substantial Shareholder

The new Article provides that a dividend will not be paid on any shares that the Board believes may form part of a Substantial Shareholding unless the Board is satisfied that the Substantial Shareholder is not beneficially entitled to the dividend.

If in these circumstances payment of a dividend is withheld, the dividend will be paid subsequently if the Board is satisfied that:

(a) the Substantial Shareholder concerned is not beneficially entitled to the dividends (see also paragraph (C) below);

(b) the shareholding is not part of a Substantial Shareholding;

(c) all or some of the shares and the right to the dividend have been transferred to a person who is not, and does not thereby become, a Substantial Shareholder (in which case the dividends would be paid to the transferee); or

(d) sufficient shares have been transferred (together with the right to the dividends) such that the shares retained are no longer part of a Substantial Shareholding (in which case the dividends would be paid on the retained shares).

For this purpose, references to the "**transfer**" of a share include the disposal (by any means) of beneficial ownership of, control of voting rights in respect of and beneficial entitlement to dividends in respect of, that share.

(C) Payment of a dividend where rights to it have been transferred

The new Article provides that dividends may be paid on shares that form part of a Substantial Shareholding if the Board is satisfied that the right to the dividend has been transferred to a person who is not, and does not thereby become, a Substantial Shareholder and the Board may be satisfied that the right to the dividend has been transferred if it receives a certificate containing appropriate confirmations and assurances from the Substantial Shareholder. Such a certificate may apply to a particular dividend or to all future dividends in respect of shares forming part of a specified Substantial Shareholding, until notice rescinding the certificate is received by the Company. A certificate that deals with future dividends will include undertakings by the person providing the certificate:

(a) to ensure that the entitlement to future dividends will be disposed of; and

(b) to inform the Company immediately of any circumstances which would render the certificate no longer accurate.

The Directors may require that any such certificate is copied or provided to such persons as they may determine, including HMRC.

If the Board believes a certificate given in these circumstances is or has become inaccurate, then it will be able to withhold payment of future dividends (as described in paragraph (B) above). In addition, the Board may require a Substantial Shareholder to pay to the Company the amount of any tax payable (and other costs incurred) as a result of a dividend having been paid to a Substantial Shareholder in reliance on the inaccurate certificate. The Board may (as described in paragraph (E) below) arrange for the sale of the relevant shares and retain any such amount from the proceeds. Any such amount may also be recovered out of dividends to which the Substantial Shareholder concerned may become entitled in the future.

Certificates provided in the circumstances described above will be of considerable importance to the Company in determining whether dividends can be paid. If the Company suffers loss as a result of any misrepresentation or breach of undertaking given in such a certificate, it may seek to recover damages directly from the person who has provided it.

The effect of these provisions is that there is no restriction on a person becoming or remaining a Substantial Shareholder provided that the person who does so makes appropriate arrangements to divest itself of the entitlement to dividends.

(D) Trust arrangements where rights to dividends have not been disposed of by Substantial Shareholder

The new Article provides that if a dividend is in fact paid on shares forming part of a Substantial Shareholding (which might occur, for example, if a Substantial Shareholding is split among a number of nominees and is not notified to the Company prior to a dividend payment date) the dividends so paid are to be held on trust by the recipient for any person (who is not a Substantial Shareholder) nominated by the Substantial Shareholder concerned. The person nominated as the beneficiary could be the purchaser of the shares if the Substantial Shareholder is in the process of selling down their holding so as not to cause the Company to breach the Substantial Shareholder rule. If the Substantial Shareholder does not nominate anyone within 12 years, the dividend concerned will be held on trust for the Company or such other person (including a charity) as may be nominated by the Board.

If the recipient of the dividend passes it on to another without being aware that the shares in respect of which the dividend was paid were part of a Substantial Shareholding, the recipient will have no liability as a result. However, the Substantial Shareholder who receives the dividend should do so subject to the terms of the trust and as a result may not claim to be beneficially entitled to those dividends.

(E) Mandatory sale of Substantial Shareholdings

The new Article also allows the Board to require the disposal of shares forming part of a Substantial Shareholding if:

(a) if a Substantial Shareholder has been identified and a dividend has been announced or declared and the Board has not been satisfied that the Substantial Shareholder has transferred the right to the dividend (or otherwise is not beneficially entitled to it);

(b) there has been a failure to provide information requested by the Board; or

(c) any information provided by any person proves materially inaccurate or misleading.

If a disposal of shares required by the Board is not completed within the timeframe specified by the Board or the Company incurs a charge to tax as a result of a dividend having been paid on a Substantial Shareholding, the Board may arrange for the sale of the relevant shares.

(F) Takeovers

The new Article does not prevent a person from acquiring control of the Company through a takeover or otherwise, although as explained above, such an event may cause the Group to cease to qualify as a REIT.

(G) Other

The new Article also gives the Company power to require any shareholder who applies to be paid dividends without any tax withheld to provide such certificate as the Board may require to establish the shareholder's entitlement to that treatment.

As a matter of company law, the articles of association of a company may be amended by special resolution passed by the shareholders. Shareholders should note that there has been specifically included in the new Article reference to the possibility of a change to the Articles to give powers to the Directors to ensure that the Company can comply with the close company condition described in paragraph (a) of the section entitled "Qualification as a REIT" in Part 2, which powers may include the ability to arrange for the sale of shares on behalf of shareholders.

The articles of association of the Company (both current and as proposed to be adopted), and accordingly the full terms of the new Article, will be available for inspection at the EGM for at least 15 minutes before and during the meeting and from the date of this document until the close of the EGM, at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN.

WORKSPACE GROUP PLC

(Incorporated and registered in England and Wales under number 2041612)

Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of the Company will be held at the Company's registered office at Magenta House, 85 Whitechapel Road, London E1 1DU on Friday, 15 December 2006 at 11:00am for the purpose of considering and, if thought fit, passing the following resolution as a special resolution:

Special Resolution

THAT, with effect from (and including) 1 January 2007, the articles of association in the printed document marked "A" now produced to the Meeting and for the purposes of identification signed by the Chairman thereof be and the same are hereby approved and adopted as the articles of association of the Company in substitution for and to the exclusion of all the existing articles of association of the Company.

By order of the Board

R Mark Taylor
Secretary
Dated: 20 November 2006

Registered Office:
Magenta House
85 Whitechapel Road
London E1 1DU

Notes:

1 Pursuant to Regulation 41 of the Regulations, the Company specifies that only those members registered in the register of members of the Company at close of business on the day which is two days before the day of the meeting shall be entitled to attend and vote at the EGM in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2 If the EGM is adjourned to a time not more than 48 hours after the time fixed for the original meeting, the above specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at close of business on the day which is two days before the day of the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

3 A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him/her. A proxy need not be a member of the Company. The appointment of a proxy will not preclude a member from attending and voting in person. A form of proxy accompanies this notice. To be valid, the form of proxy must be completed and signed and lodged, together with a power of attorney or authority (if any) under which it is signed, or a copy of such authority notarially certified or in some other way approved by the Board of Directors, in accordance with the instructions set out on it and be received by the Company's registrar's, Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, not later than 48 hours before the time fixed for the meeting or the adjourned meeting.

4 A copy of the current articles of association of the Company, and of the proposed articles of association, will be available for inspection at the EGM for at least 15 minutes before and during the meeting and from the date of this document until the close of the general meeting, at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN.

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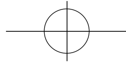

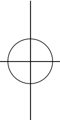
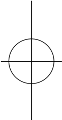

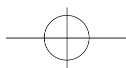

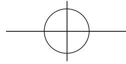

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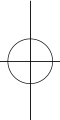

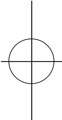

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