



2002



Quarterly Report
for the nine months ended 31 December 2002



Highlights

- Pre-tax trading profits for the quarter £3.18 million, up 7.1% on the same period last year; for the nine month period pre-tax trading profits £9.0 million up 5.5% on the same period last year.
- Trading earnings per share at 39.6p for the nine month period up 2.3% before property sales (31 December 2001: 38.7p).
- Turnover £11.35 million for the quarter, up by 19.3% and for the nine-month period up by 13.1% to £32.72 million.
- Annual rent roll up £0.49 million to £33.92 million over the quarter (and £4.36 million (14.8%) over nine months).
- Average like-for-like rent up 7.1% in three-quarter period to £7.88 per sq. ft.
- Net Asset Value per share at 31 December 2002 £14.31, up 11.7% over twelve months (31 December 2001: £12.81).
- Gearing 94%.

Operating and Financial Review

Trading Review

The pattern of progress established in the first half has continued during the third quarter. The like-for-like rent roll has improved again by £0.49m during the quarter whilst occupancy levels have remained high at 87%. Average rents on a like-for-like basis have now increased by 7.1% in the three-quarter period to £7.88 per sq. ft. The rent roll, including acquisitions, now stands at £33.92 million compared with £29.56 million at 1 April 2002.

Pre-tax profits in the third quarter were £3.18 million, up 7.1% on the same period last year. For the nine-month period trading pre-tax profits were £9.00 million up 5.5% on the same period last year. London and the South East remains the foremost region of the UK for small and medium sized enterprises (SMEs), supporting the decision last year by the Company to refocus its activities into this region by disposing of its Midlands Portfolio. Our property stock, being flexible, affordable and located in areas where SMEs are most active, continues to appeal to them.

At the headline level, profits before tax of £7.48 million include an exceptional £1.86 million charge arising from the refinancing of the Group's securitised facility by a new loan with Bradford & Bingley, offering greater funding flexibility.

Whilst no acquisitions were completed in the quarter itself, one was contracted and completed after the quarter end. Others are under active negotiation. By the year end, the Group also hopes to report further progress on its programme to add value to certain properties through extension and change in use.

Portfolio

During the nine months the annual rent roll of occupied units increased by £4.36 million or 14.8% to £33.92 million. Like-for-like rentals grew by 1.68% over the quarter and 7.1% over the year to date to £7.88 per sq. ft average. High occupancy levels at 87.00% were maintained throughout the quarter and are continuing.

No acquisitions or disposals were made in the quarter. However contracts were exchanged for the acquisition of Canalot Studios (completed on 13 January 2003). This 55,600 square feet business centre with 100 lettable units is located in Ladbrooke Grove close to 5 other centres owned by the group. It will complement, both in terms of unit size and accommodation type, these other properties.

Negotiations on three other purchases are currently underway, with one or more due to be completed before the year end. All are small unit industrial estates in London servicing their local markets and with scope for improvement under our management.

The portfolio statistics and progress through the year to date, may be summarised as follows:

	31 December 2002	30 September 2002	30 June 2002	31 March 2002
Number of estates	90	90	88	87
Total floorspace at end of period (sq. ft)	5,062,256	5,011,204	4,870,735	4,849,758
of which:				
Like for like portfolio (sq. ft)	4,433,209	4,431,036	4,428,604	4,427,872
Net Acquisitions/(Disposals) (sq. ft)	222,639	170,693	29,364	–
Three Mills and development (sq. ft)	406,408	409,475	412,767	421,886
Lettable units (number)	4,002	3,943	3,707	3,726
Annual rent roll of occupied units (£)	33,924,953	33,439,357	30,419,208	29,560,157
Average rent (£/sq. ft)	8.24	8.03	7.39	7.20
Average rent of like-for-like portfolio (£/sq. ft)	7.88	7.75	7.44	7.36
Occupancy overall	83.33%	83.15%	84.52%	84.67%
Occupancy of like-for-like portfolio	87.00%	87.15%	89.30%	89.15%

Operating and Financial Review

continued

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The “like-for-like portfolio” is defined as those properties, excluding Three Mills (which due to the short term nature of lettings of studio space has a volatile occupancy rate which can obscure overall patterns), that have been held throughout the year to date and which are not subject to refurbishment/redevelopment programmes.

Financial Review

With turnover up 19.3%, pre-tax trading profits up 7.1%, and net asset value per share up 11.7% over the comparable period quarter last year the Group has continued the progress made over the first half of the year.

As referred to in the Trading Review, a £1.86m write-off was charged to the P&L account in the first half as a result of the refinancing of the Group’s principal debt facility. This was not a cash breakage cost but arose as a result of writing off previously capitalised expenditure incurred on raising the original facility with WestLB. The new loan offers greater availability of finance in terms of the total facility. At the same time the funds immediately drawable, based on the security provided, increased also. Both this and the NatWest facility secured earlier in 2002 are priced at a margin slightly below 1% over LIBOR, reflecting the progress that the Group has made over recent periods in pushing down borrowing costs.

At the period end gearing stood at 94%, with trading interest cover of 1.95. Following the refinancing referred to above the Group had at 31 December over £45 million of facilities available for immediate drawdown, together with a further £40m of currently uncharged investment property available to secure further borrowings.

Current Trading

Enquiries continue to be at good levels despite the current uncertainties in the wider economic environment.

Occupancy remains stable at high levels and we are on target to meet our expectations for the year. Meanwhile, the Group has a number of acquisitions under negotiation as we pursue our consistent long-term strategy of being the dominant provider of space for small businesses in London and the South East.

Unaudited Consolidated Profit and Loss Account

for the 9 months ended 31 December 2002

Audited year ended 31 March		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December			
		2002 £000	2001 (restated) £000	Trading Operations £000	Other Items £000	Total 2002 £000	2001 (restated) £000
39,083	Turnover – continuing operations	11,354	9,518	32,721	–	32,721	28,926
(11,172)	Rent payable and direct costs	(3,243)	(2,870)	(9,457)	–	(9,457)	(8,367)
27,911	Gross profit	8,111	6,648	23,264	–	23,264	20,559
(5,964)	Administrative expenses	(1,482)	(1,373)	(4,746)	–	(4,746)	(4,215)
21,947	Operating profit – continuing operations	6,629	5,275	18,518	–	18,518	16,344
567	Surplus on disposal of investment property	25	(16)	–	338	338	361
333	Interest receivable	10	53	104	–	104	282
(10,819)	Interest payable and similar charges	(3,483)	(2,380)	(9,622)	(1,861)	(11,483)	(8,094)
12,028	Profit on ordinary activities before taxation	3,181	2,932	9,000	(1,523)	7,477	8,893
(3,068)	Taxation on profit on ordinary activities	(934)	(863)	(2,700)	484	(2,216)	(2,526)
8,960	Profit on ordinary activities after taxation	2,247	2,069	6,300	(1,039)	5,261	6,367
–	Equity minority interests	–	–	–	–	–	–
8,960	Profit attributable to shareholders	2,247	2,069	6,300	(1,039)	5,261	6,367
(4,192)	Dividends	–	–	(1,179)	–	(1,179)	(1,143)
4,768	Retained for the period	2,247	2,069	5,121	(1,039)	4,082	5,224
55.4p	Basic earnings per share	14.1p	12.8p	39.6p	(6.5p)	33.1p	39.5p
54.2p	Diluted earnings per share	13.8p	12.5p			32.6p	38.7p

Statement of Total Recognised Gains and Losses

Audited year ended 31 March		Unaudited 9 months ended 31 December	
		2002 £000	2001 (restated) £000
8,960	Profit for the financial period	5,261	6,367
26,863	Unrealised surplus on revaluation of investment properties	8,091	14,389
(150)	Taxation on valuation surpluses realised on sale of properties	–	(150)
35,673	Total recognised gains relating to the financial period	13,352	20,606
(3,128)	Prior year adjustment	–	(3,128)
32,545	Total gains recognised since last financial statements	13,352	17,478

Note of Historical Cost Profits and Losses

Audited year ended 31 March		Unaudited 9 months ended 31 December	
		2002 £000	2001 (restated) £000
12,028	Reported profits on ordinary activities before taxation	7,477	8,893
5,014	Realisation of property revaluation (losses)/gains of previous years	(87)	4,770
(150)	Taxation on valuation surpluses realised on sale of properties	–	(150)
16,892	Historical cost profit on ordinary activities before taxation	7,390	13,513
9,632	Historical cost profit for the period retained after taxation and dividends	3,995	9,844

Unaudited Consolidated Balance Sheet

as at 31 December 2002

Audited		Unaudited 31 December	
31 March		2002	2001
2002		(restated)	
£000		£000	£000
	Fixed Assets		
	Tangible assets		
414,707	Investment properties	464,622	382,876
3,540	Other fixed assets	3,913	1,538
1,015	Investment in own shares	6,249	1,015
419,262		474,784	385,429
	Current Assets		
150	Stock: properties for sale	150	–
6,189	Debtors	5,617	6,950
5,443	Investments	1,960	6,100
340	Cash at bank and in hand	162	14
12,122		7,889	13,064
(30,964)	Creditors: amounts falling due within one year	(22,912)	(25,847)
(18,842)	Net current liabilities	(15,023)	(12,783)
400,420	Total assets less current liabilities	459,761	372,646
	Creditors: amounts falling due after more than one year (including		
(175,730)	Convertible Loan Stock)	(221,904)	(160,148)
(3,365)	Provision for liabilities and charges	(3,909)	(3,315)
221,325		233,948	209,183
	Capital and reserves		
1,648	Called up share capital	1,661	1,644
42,030	Share premium account	42,467	41,910
144,588	Revaluation reserve	152,766	132,358
33,059	Profit and loss account	37,054	33,271
221,325	Shareholders' funds – equity interests	233,948	209,183
–	Equity minority interests	–	–
221,325	Capital Employed	233,948	209,183
£13.53	Net asset value per share	£14.31	£12.81
	Movement in Shareholders' Funds		
8,960	Profit for the financial period	5,261	6,367
(4,192)	Dividends	(1,179)	(1,143)
4,768		4,082	5,224
30	Issue of shares	13	26
1,364	Share premium account	437	1,244
26,863	Revaluation reserve – increase	8,091	14,389
(150)	Taxation on valuation surpluses realised on sale of properties	–	(150)
32,875	Net addition to shareholders' funds	12,623	20,733
188,450	Opening shareholders' funds	221,325	188,450
221,325	Closing shareholders' funds	233,948	209,183

Unaudited Consolidated Cash Flow Statement

for the 9 months ended 31 December 2002

Audited year ended 31 March 2002 £000		9 months ended 31 December 2002 £000	Unaudited 2001 £000
23,429	Net cash inflow from operating activities	20,163	16,913
(11,261)	Return on investments and servicing of finance	(9,584)	(7,623)
(5,564)	Taxation	(2,360)	(4,780)
(23,278)	Capital expenditure – net	(48,794)	(4,052)
(3,796)	Equity dividends paid	(3,035)	(2,659)
(20,470)	Net cash outflow before use of liquid resources and financing	(43,610)	(2,201)
(70)	Management of liquid resources	4,358	(727)
19,751	Financing	42,478	3,749
(789)	Net cash inflow/(outflow)	3,226	821
	Reconciliation of net cash flow to movement in net debt		
(789)	Increase/(decrease) in cash	3,226	821
70	(Decrease)/increase in liquid resources	(4,358)	727
(18,201)	Outflow from movements in debt financing	(42,822)	(2,662)
(18,920)	Changes in net debt resulting from cash flows	(43,954)	(1,114)
(157,147)	Net debt at beginning of period	(176,067)	(157,147)
(176,067)	Net debt at period end	(220,021)	(158,261)

Notes to the Quarterly Results

1. Basis of preparation

The unaudited financial information contained in this quarterly report does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2002 included an unqualified report of the auditors. The Group's unaudited accounts for the period ended 31 December 2002 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2002. The full accounts for the year ended 31 March 2002 have been filed with the Registrar of Companies. 2001 comparatives have been restated due to the application of FRS 19 (deferred tax).

2. Segmental analysis

Audited year ended 31 March 2002 £000		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December	
		2002 £000	2001 £000	2002 £000	2001 £000
30,864	Rental Income	8,993	7,517	25,962	22,939
6,877	Service charge and other recoveries	1,861	1,612	5,445	5,006
1,342	Services, fees, commissions and sundry income	500	389	1,314	981
39,083		11,354	9,518	32,721	28,926

3. Interest payable and similar charges

Audited year ended 31 March 2002 £000		Unaudited 3 months ended 31 December		Unaudited 9 months ended 31 December	
		2002 £000	2001 £000	2002 £000	2001 £000
361	11% Convertible Loan Stock 2011	79	79	239	281
1,391	11.125% First Mortgage Debenture Stock 2007	348	348	1,043	1,043
814	11.625% First Mortgage Debenture Stock 2007	204	204	611	611
7,486	Mortgage interest on securitised loan not wholly repayable within five years	–	1,731	1,884	5,778
1,007	Bank and other interest on amounts wholly repayable within five years	2,954	83	6,252	516
–	Finance costs written off	–	–	1,861	–
11,059		3,585	2,445	11,890	8,229
(240)	Interest capitalised on development properties	(102)	(65)	(407)	(135)
10,819	Charged to profit and loss account	3,483	2,380	11,483	8,094

4. Taxation

The taxation charge, excluding tax on property disposals, for the nine months ended 31 December 2002 is based on the estimated effective tax rate for the year ending 31 March 2003 of 30% (due provision being made for both current and deferred taxation liabilities). For comparative purposes the taxation charge for the 9 months ended 31 December 2001 has been restated (30%).

5. Earnings Per Share and Net Assets Per Share

Earnings per share have been calculated by dividing the profit after tax for each period attributable to shareholders by the weighted average number of ordinary shares in issue during the period less investment in own shares of 699,190 (15,879,438 shares). Net assets per share have been calculated by dividing net assets at the end of each period by the number of shares in issue at that time less investment in own shares of 699,190 (15,906,795 shares).

Notes to the Half Year Results

continued

6. Valuation

The Group's investment properties were valued by Insignia Richard Ellis at 30 September 2002 on the basis of open market existing use value and in accordance with the guidance notes issued by the Royal Institution of Chartered Surveyors. The valuation shown in the unaudited accounts is based on the independent valuation at 30 September 2002 plus additions at cost less disposals at book value.

7. Creditors

Creditors falling due within one year include tenants' deposits of £4.72 million (31 March 2002: £4.2 million) and deferred rental and service charges of £5.2 million (31 March 2002: £5.1 million).

8. Fair Value of Financial Liabilities

In accordance with the requirements of FRS 13, an assessment of the fair value of the Group's financial instruments held for financing purposes has been undertaken as at 31 December 2002. The results are summarised as follows:

		Audited				Unaudited 31 December	
		31 March				2001	
2002	2002			2002	2002	2001	2001
£000	£000			£000	£000	£000	£000
Book Value	Fair Value			Book Value	Fair Value	Book Value	Fair Value
Primary financial instruments							
(6,120)	(6,120)	Short-term liabilities		(238)	(238)	(4,227)	(4,227)
(175,730)	(181,293)	Long-term borrowing		(221,904)	(227,076)	(160,148)	(165,648)
5,783	5,783	Financial assets		2,122	2,122	6,114	6,114
Derivative financial instruments							
283	(2,298)	Interest rate collars		254	(4,638)	293	(2,306)
(175,784)	(183,928)			(219,766)	(229,830)	(157,968)	(166,067)

This represents 63.3 pence per issued ordinary share and if applied to net asset value per share at 31 December 2002 would reduce the latter to £13.68. On a diluted basis, allowing for conversion of the Group's convertible loan stock, this adjustment reduces to 47.0 pence per share. However, the Group has no obligation or present intention to repay its Debenture and Convertible borrowings other than at maturity, when they will be repaid at par. Cash outflows arising from these borrowings will be limited to the future fixed interest payments and redemption at par. These outflows are unaffected by the notional market or fair values referred to above.

9. Quarterly Statement

Copies of this statement will be despatched to shareholders on Monday 24 February 2003 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London E1 1DU from 9.00am that day.

Directors, Officers and Advisers

The Business

Workspace Group is a specialised property investment company devoted to the provision of small unit light industrial, studio and office workspace for rent to small and medium sized enterprises in London and the South East.

Directors

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Alan H Cherry MBE DL FRICS Hon MRTPI (Deputy Chairman)*
Harry Platt MA MRTPI (Chief Executive)
Madeleine Carragher FRICS (Operations Director)
J Patrick Marples MRICS (Property Director)
Christopher J Pieroni BA MSc PhD*
R Mark Taylor BSc FCA (Finance Director)

*Non-executive and members of Remuneration and Audit Committees

Secretary

Iain G R MacDonald LLB MBA

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