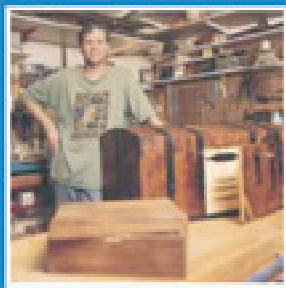
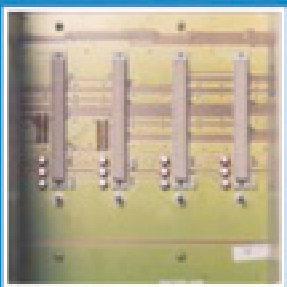
Workspace Group





Quarterly Report
for the three months ended 30 June 2001

Highlights

- Pre-tax profits grew by 29% to £2.9 million for the quarter compared with the same period in 2000.
- Basic earnings per share at 13.1p for the quarter increased by 2.8p (or 27%) over the corresponding period in 2000.
- Sale of Midlands portfolio for £42.3 million as the Group focuses on London and the South East.
- Acquisitions/commitments in the quarter of £7.8 million at Harlow and Chancery Lane, WC2.
- Turnover at £10.0 million for the quarter grew by 17.2% compared with the same period in 2000.
- Annual rent roll increased during the quarter by 2.5% from £24.94 million to £25.57 million, excluding the Midlands portfolio.
- Net asset value per share at 30 June 2001 rose to £12.06 (31 March 2001: £11.93).

Operating and Financial Review

Review of Activities

This has been another quarter of intense activity, with continued good progress resulting in pre-tax profits of £2.9 million for the quarter, 29% up on the same period last year.

A highlight of the quarter was the sale of the Midlands portfolio for £42.3 million, representing 11% by value of the Group's total portfolio at 31 March 2001, as the Group focused its expansion on the London and the South East market.

Throughout the quarter core occupancy has remained stable at around 89%. Lettings and renewals activity has continued in a setting of consistent demand. Average rents of the core London and South East portfolio have increased by 3.3% in the first quarter alone. Excluding the Midlands portfolio, the rent roll has increased by £0.63 million or 2.5% to £25.57 million (from £24.94 million at 31 March). Of this change £0.11 million reflects the net effect of acquisitions/disposals, whilst £0.52 million reflects underlying rental growth.

Two property acquisitions were contracted during the period whilst, in addition to the Midlands disposal, one other estate was sold. Following the quarter end, contracts were exchanged for the disposal of a further estate. Both of the estates sold were of older style industrial accommodation with limited longer term potential, and have a combined exit yield of 6.0%.

Our new digital services initiative, Vylan, was launched on 25 June. This is a pilot initiative to provide broadband connectivity and related services to tenants at our business centres. Sales progress to date is ahead of plan and future prospects encouraging.

Acquisitions and Disposals

On 15 June the Group sold its entire Midlands portfolio. The Group's London and South East properties have consistently outperformed those in the Midlands. Furthermore, economic activity in its principal customer group, the small to medium-sized enterprises (SME) sector, has been and continues to be, focused more actively in the South East. The Group decided therefore that it should increase its holdings and leadership position in this area through this disposal to provide funds for reinvestment in London and the South East. One further disposal was also made during the quarter, Ashburton Trading Estate, which is situated on the site of the proposed new ground for the Arsenal Football Club.

During the quarter the Group completed the purchase of Harlow Enterprise Centre, Harlow, for £3.6 million, and exchanged contracts (with completion following the quarter end) on a further property, Quality Court, London WC2 for £4.22 million. Refurbishment works on the latter are scheduled to commence in September.

Operating and Financial Review continued

The table below shows the main details of acquisitions and disposals in the first quarter:

Name of Property	Description	Acquisition/ Sale Price	Annual Income
Acquisitions:			
Harlow Enterprise Centre, Harlow	Single storey estate; 28 units in 51,851 sq ft	£3.6m	£344,324
Quality Court, London, WC2	24,102 sq ft – vacant subject to refurbishment	£4.22m	Nil
Disposals			
Midlands portfolio	26 multi-let estates; in total 1.22 million sq ft	£42.3m	£4,361,240
Ashburton Trading Estate, London N7	Single storey estate; 5 units in 63,065 sq ft	£2.8m	£230,000

Following the quarter end agreements were exchanged for the sale of Arklow Road Trading Estate, London SE14, for £2.9 million. This estate has been sold to an owner occupier at 21% surplus to book value at 31 March 2001. With its relatively low level of gearing at 60.5% at 30 June 2001, the Group has substantial capacity to make further acquisitions in London and the South East.

Cash Flow and Financing

There was a net cash inflow of £0.98 million (2000: £1.8 million) during the period. Net cash flow from operating activities was an inflow of £5.1 million for the quarter (2000: £6.3 million). Capital expenditure in the quarter of £5.9 million was offset by disposal proceeds of £44.8 million (2000: net £5.5 expenditure). At the quarter end gearing stood at 60.5% (2000: 104.6%).

Operating and Financial Review continued

Occupancy and Trading Statistics

The Group's key statistics relating to its trading operations are given in the table below. Since the Midlands portfolio was sold during the quarter, opening values at 31 March 2001 have been restated to exclude the properties sold.

	30 June 2001	31 March 2001
Number of estates	**78**	78
Total floorspace at end of period (sq ft)	**4,529,740**	4,525,030
of which:		
London and South East (sq ft)	**4,127,378**	
Three Mills and developments (sq ft)	**402,362**	
Lettable floorspace of core portfolio (sq ft)	**4,075,527**	4,062,033
Lettable units (number)	**3,521**	3,507
Annual rent roll of occupied units	**£25,570,817**	24,941,423
Average rent (£/sq ft)	**£6.71**	£6.39
Average rent of core portfolio (£/sq ft)	**£6.87**	£6.65
Occupancy overall	**84.2%**	86.2%
Occupancy of core portfolio	**88.6%**	89.8%

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The "core 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.

Current Trading

Compared with this time last year, enquiry levels continue at good rates and the rent review programme continues to produce good results. We are monitoring carefully the current uncertainties in the wider economy. To date, the prospects in our market place remain strong and good progress has been made in achieving our targets for the year. We continue to follow a large number of potential acquisitions but will only conclude those which we are confident will yield long term value for our shareholders.

Unaudited Consolidated Profit and Loss Account

for the 3 months ended 30 June 2001

	3 months ended 30 June	
	2001	2000
	£000	£000
Turnover – continuing operations	**10,013**	8,547
Rent payable and direct costs	**(2,705)**	(2,304)
Gross profit	**7,308**	6,243
Administrative expenses	**(1,401)**	(1,179)
Operating profit – continuing operations	**5,907**	5,064
Profit/(Loss) on Disposal of investment property	**3**	(12)
Interest receivable	**85**	115
Interest payable and similar charges	**(3,131)**	(2,946)
Profit on ordinary activities before taxation	**2,864**	2,221
Taxation on profit on ordinary activities	**(772)**	(600)
Profit attributable to shareholders	**2,092**	1,621
Dividends	**–**	–
Retained for the period	**2,092**	1,621
Earnings per shares (basic)	**13.1p**	10.3p
Diluted earnings per share	**12.7p**	10.1p

Other than the profit for the period there were no other recognised gains or losses during the period (2000 – Nil).

Consolidated Balance Sheet

	Unaudited 30 June 2001 £000	Audited 31 March 2001 £000
Fixed assets		
Tangible assets		
Investment properties	**327,254**	366,525
Other fixed assets	**1,547**	999
Investment in own shares	**1,015**	1,015
	329,816	368,539
Current assets		
Debtors	**6,716**	5,844
Investments	**22,383**	5,373
Cash at bank and in hand	**296**	206
	29,395	11,423
Creditors: amounts falling due within one year		
Loans and overdrafts	**(3,505)**	(4,355)
Others	**(25,769)**	(25,658)
Net current assets/(liabilities)	**121**	(18,590)
Total assets less current liabilities	**329,937**	349,949
Creditors: amounts falling due after more than one year loans (including Convertible Loan Stock)	**(136,263)**	(158,371)
	193,674	191,578
Capital and reserves		
Called up share capital	**1,618**	1,618
Share premium account	**40,670**	40,666
Revaluation reserve	**118,529**	122,739
Profit and loss account	**32,857**	26,555
Shareholders' funds – equity interests	**193,674**	191,578
Net asset value per share	**£12.06**	£11.93
Movement in shareholders' funds		
Profit for the financial period	**2,092**	13,222
Dividends	**–**	(3,723)
	2,092	9,499
Issue of Shares	**–**	27
Share premium account	**4**	871
Revaluation reserve – increase	**–**	38,673
Taxation on valuation surpluses realised on sale of properties	**–**	(510)
Net movement in shareholders' funds for the financial period	**2,096**	48,560
Shareholders' funds as at 1 April 2001/2000	**191,578**	143,018
Shareholders' funds as at 30 June 2001/31 March 2001	**193,674**	191,578

Unaudited Cash Flow Statement

for the 3 months ended 30 June 2001

	3 months ended 30 June	
	2001	2000
	£000	£000
Net cash inflow from operating activities	**5,137**	6,301
Return on investment and servicing of finance	**(2,674)**	(3,187)
Taxation	**(1,200)**	(335)
Capital proceeds/(expenditure) – net	**38,916**	(5,496)
Equity dividends paid	**–**	–
Net cash inflow/(outflow) before use of liquid resources and financing	**40,179**	(2,717)
Management of liquid resources	**(17,009)**	871
Financing	**(22,195)**	3,615
Net cash inflow	**975**	1,769
Reconciliation of net cash flow to movement in net debt		
Increase in cash	**975**	1,769
Increase/(Decrease) in liquid resources	**17,009**	(871)
Inflow/(Outflow) from movements in debt financing	**22,073**	(3,541)
Changes in net debt resulting from cash flows	**40,057**	(2,643)
Net debt at 1 April	**(157,147)**	(148,731)
Net debt at 30 June	**(117,090)**	(151,374)

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 2001 included an unqualified report of the auditors. The Group's unaudited quarterly accounts for the period ended 30 June 2001 have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts for the year ended 31 March 2001.

2. Segmental Analysis

	3 months ended 30 June	
	2001	2000
	£000	£000
Rental income	**7,982**	6,677
Service charge and other recoveries	**1,715**	1,477
Fees, commissions, and sundry income	**316**	393
	10,013	8,547

3. Interest Payable

	3 months ended 30 June	
	2001	2000
	£000	£000
Convertible loan stock and debenture stock interest	**662**	662
Mortgage and bank loan interest	**2,445**	2,608
Bank and other interest	**24**	23
Net development interest capitalised	**–**	(347)
Charged to profit and loss account	**3,131**	2,946

4. Taxation

The taxation charge for the three months ended 30 June 2001 is based on the estimated effective tax rate for the year ending 31 March 2002 of 27% (2001 estimated: 27%).

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 200,000 (15,979,652 shares). Net assets per share have been calculated by dividing net assets at the end of each period less investment in own shares by the number of shares in issue at that time less 200,000 (15,980,682 shares).

Notes to the Quarterly Results continued

6. Valuation

No valuation of investment properties has been carried out at 30 June 2001. The valuation shown in the unaudited accounts is based on the independent valuation at 31 March 2001, plus additions at cost less disposals at book value.

7. Creditors

Creditors falling due within one year include tenants' deposits of £2.99 million (31 March 2001: £3.26 million) and deferred rental and service charges of £4.30 million (31 March 2001: £4.95 million).

8. Financial Instruments

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 30 June 2001. The results are summarised as follows:

	Book Value £ Million	Fair Value £ Million	Difference £ Million
Short term borrowings and current part of long term borrowings	**(3.5)**	**(3.5)**	**–**
Long term borrowings	**(136.3)**	**(142.4)**	**(6.1)**
Financial Assets	**22.4**	**22.4**	**–**
Interest rate Cap/Collar	**0.3**	**–**	**(0.3)**
	(117.1)	**(123.5)**	**(6.4)**

This represents 40 pence per issued ordinary share and if applied to net asset value per share at 30 June 2001 would reduce the latter to £11.66. On a diluted basis, allowing for conversion of the Group's convertible loan stock, this adjustment reduces to 18 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. Interim Statement

Copies of this statement will be dispatched to shareholders on Monday 13 August 2001 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU from 9.00am on 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 new and emerging businesses in Greater London, the Home Counties and the Midlands.
Directors	**Phillip P Rhodes** **FCA** (Chairman)* **Alan H Cherry** **MBE, 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	**R Mark Taylor** **BSc, FCA**
Senior Management	**Nirmal Chandra Saha** **MCOM, MBA, FCMA** (Divisional Director, Finance)
Registered Office and Headquarters	Magenta House 85 Whitechapel Road London E1 1DU Tel: 020 7247 7614 Fax: 020 7247 0157
Financial Advisers and Stockbrokers	**WestLB Panmure Limited** Woolgate Exchange 25 Basinghall Street London EC2V 5HA Tel: 020 7020 4000 Fax: 020 7020 4009
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