



→ Strategic growth
→ Sustained progress

Highlights

Quarterly Results for the three months ended 30 June 2005

- Net asset value (NAV) per share at 30 June 2005 £1.85, up 4.5% over the three months and up 21% over twelve months (31 March 2005: £1.77; 30 June 2004: £1.53).
- NAV per share (under former UK GAAP) at 30 June 2005 £2.35 (31 March 2005: £2.24; 30 June 2004: £1.83).
- Valuation surplus for quarter £18.1m (2004: £14.2m).
- Pre-tax profits £19.82m (2004: £18.60m).
- Pre-tax profits on trading operations £3.14m (2004: £3.49m).
- Basic earnings per share 8.5p (2004: 8.1p).
- Earnings per share on trading activities 1.3p (2004 1.5p).
- Turnover £13.95m for the quarter up 4.1% on the same quarter last year.
- Total rent roll £43.2m up 2.1% including acquisitions over the three month period (31 March 2005: £42.3m; 30 June 2004: £38.8m).
- Acquisitions £95.7m since 31 March 2005, with initial annual income of £6.1m.

Operating and Financial Review

Chairman's Statement

We have made a good start to the current year with NAV per share up 4.5% over the quarter and 21% over the last 12 months. In particular, after a year in which our acquisitions levels, in a competitive market, were lower than planned, I am pleased to report sound progress in the current period. Since 31 March 2005 £95.7m of acquisitions have been completed or contracted, showing a combined initial yield of 6.4% and a yield on current market rental levels at full occupancy of 8.85%. These properties have potential for further growth.

These are the first financial statements that we have released prepared under the new International Financial Reporting Standards (IFRS). In common with most other companies, the introduction of IFRS has a profound impact on our financial reporting. As a UK based property company, the two main changes are the incorporation of valuation surpluses in the Income Statement, which has the impact of increasing earnings per share substantially to 6.5 times that under the former accounting principles, and the full recognition of deferred tax liabilities principally on valuation surpluses, which has reduced Net Worth and Net Asset Value per share, with NAV per share 21% lower under these principles. Another significant impact will be the increased level of volatility in reported performance. This and the related impacts on Earnings per Share (EPS) are commented upon more fully in the Financial Review.

This is the first time that the Group has undertaken an independent quarterly valuation of its portfolio. A valuation surplus of £18.1m, an increase of 2.47% on the portfolio value immediately prior to the revaluation, was recorded in the quarter, taking Net Asset Value per share to £1.85 (31 March 2005 £1.77) (under former UK GAAP £2.35 at 30 June 2005 and £2.24 at 31 March 2005).

Going forward, it seems that the immediate prospects for some parts of the economy have recently become more uncertain, which has had the effect of slowing activity in these sectors. As yet, we see no evidence of a change to the activity pattern of our SME customer base, with occupancy rates little changed. In the longer term, the award of the 2012 Olympics to London must present opportunities. We believe that this will act as an important stimulant to the whole of the London economy; extending beyond the Lea Valley in East London, where the principal stadiums are to be located. As a major investor in London servicing the SME business community in the city, the Group should benefit substantially from the Olympiad.

Chief Executive's Statement

The first quarter shows the Group making further progress. Net rental income, including acquisitions, was up 2.45% at £10.06m for the quarter (2004: £9.82m) with overheads down 4.2%. Net asset value per share is up 4.5% on the opening 31 March 2005 value.

Earnings per share, at 8.5p are up 4.9% on the first quarter of 2004/5. Of this 7.2p per share relates to Other Items, arising principally from the valuation surplus net of the change in fair value of the financial derivatives.

As noted above, five acquisitions, totalling £95.7m, have been achieved in the year to date, a period in which competition for property continued to be high. These acquisitions have been secured at values that, we anticipate, will provide good support for earnings and net asset value growth in the future. With the Group's increasing focus on the London metropolitan area, the Board is undertaking a review of its portfolio. It is possible that the disposal of certain properties outside this area may follow, particularly where the Board considers that these properties are unlikely to contribute to growth at the levels comparable with those anticipated for similar properties within London.

Taking into account the acquisitions completed or contracted following the quarter end, the Group's portfolio now stands at over £830.0m, well on the way to the target set in September 2003 of £1bn by September 2008.

Valuation

The financial results include, for the first time, an independent valuation of the Group's portfolio at the quarter end. This valuation showed a surplus of £18.1m for the quarter, a 2.47% increase. This increase was largely attributable to yield movements in the sector over the period with just 10% arising from net rental improvements.

Operating and Financial Review

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Portfolio

The following acquisitions and disposals have been made or contracted in the year to date:

| Name of Property | Description | Acquisition/ Sale Price | Initial/Exit Income £000 | Market rent at 30 June 2005 £000 |
|---|---|----------------------------|--------------------------------|--|
| Acquired during quarter: | | | | |
| 111 Power Road, Chiswick, London, W4 | Factory complex of 98,000 sq.ft. | £7.50m | 151.8 | 1,349.1 |
| Marshgate Business Centre, London, E15 | Multi-let industrial estate of 93,400 sq.ft. | £5.59m | 347.3 | 483.0 |
| Acquired following quarter end: | | | | |
| Evelyn Court, Deptford, SE8 5AD | 16,000 sq.ft., 18 unit offices | £2.64m | 210.0 | 209.5 |
| Uplands Business Park, Walthamstow, E17 | 287,500 sq.ft. industrial estate with 45 units | £24.0m | 1,711.0 | 1,889.0 |
| Contracts exchanged following quarter end: | | | | |
| Kennington Park, Kennington, SW9 | 333,100 sq.ft. business park arranged over 11 buildings with 71 lettable units. | £56.0m | 3,705.4 | 4,545.0 |
| | | £95.73m | 6,125.5 | 8,475.6 |
| Yield | | | 6.40% | 8.85% |
| Sold: | | | | |
| Payne Road Studios, London, E3 | Site sold with consent for mixed residential and commercial accommodation. | £2.10m | 97.4 | – |
| Exit Yield | | | 4.64% | |

111 Power Road, Chiswick was identified following the acquisition last year of Chiswick Studios, which is located nearby. It is a former costume jewellery factory complex. The previous owners had commenced a phased programme to convert it to a business centre use, with the result that only 32% of the space was occupied. We plan to invest a further £4.5m to accelerate and complete this conversion, following which it should provide over time an income of £1.35m (yielding in excess of 10% on our total investment).

Marshgate Business Centre and Uplands Business Park are located in East London and will be directly impacted by the Olympics in 2012. Marshgate Business Centre is situated on the edge of the Olympic zone and could potentially be subject to a compulsory purchase order. This was recognised at the time of purchase (before the Olympics announcement) but we believe that, given its inexpensive purchase price at £60 per sq.ft., we will, in any event, see a good return from our investment in the property. Uplands is located further north in the Lea Valley. It is positioned well to benefit from lettings to those businesses that will need to be relocated from the core Olympic zone.

Evelyn Court, Deptford is a small office scheme, which is highly visible being located on the A200, Evelyn Street. This is an improving area and we expect rental and capital values to advance over time in reflection of this.

Kennington Park will be a significant acquisition. Contracts were exchanged for the purchase of this estate on 19 August 2005 and it will complete on 15 September 2005. It is well located on an island site fronting the A23 adjacent

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to the Oval tube station in an area which we believe will change substantially in the medium term. It comprises a development of 11 separate buildings, used formerly for a mixture of industrial activities. It is now subdivided and occupied by a range of activities. It is just 2 miles from Westminster and compliments the cluster of other properties that the Group has acquired nearby over recent periods in the Southwark/Lambeth districts.

Following the acquisitions and disposals completed in the quarter, the portfolio statistics, and progress through the year to date may be summarised as follows:

| | 30 June 2005 | 31 March 2005 |
|--|-------------------------|--------------------------|
| Number of estates | 105 | 104 |
| Total floor space at end of period (million sq. ft.) | 5.33 | 5.16 |
| of which: | | |
| Like-for-like portfolio (million sq. ft.) | 4.97 | |
| Net Acquisitions/(Disposals) (million sq. ft.) | 0.18 | |
| Developments (million sq. ft.) | 0.18 | |
| Lettable units (number) | 4,748 | 4,717 |
| Annual rent roll of occupied units (£m) | 43.17 | 42.28 |
| Average rent (£/sq. ft.) | 9.35 | 9.29 |
| Average rent of like-for-like portfolio (£/sq. ft.) | 9.26 | 9.11 |
| Occupancy overall | 86.65% | 88.26% |
| Occupancy of like-for-like portfolio | 89.40% | 90.27% |

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The "like-for-like portfolio" is defined as those properties that have been held throughout the year to date and which are not subject to refurbishment/redevelopment programmes.

Like-for-like occupancy declined slightly during the quarter from 90.3% to 89.4%, although it remains at levels that are regarded as effective full occupancy by the Group. There has been some attrition since the quarter end with expected tenant departures which may result in a further reduction in occupancy levels in the next two quarters. For example, the Inland Revenue is departing from Surrey House which is making 16,900 sq.ft. of space available for letting in conjunction with our Great Guilford Street Business Centre. Against this, average rental income per square foot (on a like-for-like basis) increased by 1.6% over the quarter, equivalent to an annual rate of increase of 6.75%, comfortably ahead of our target growth level of 5.0%.

Progress on the Group's programme to add value to its properties continues. Following the receipt of planning consent to redevelop its Wharf Road property, the Group invited tenders from residential developers to acquire the site for a consideration comprising the provision of a replacement business centre on the site, together with a cash lump sum. Negotiations are now in progress with the preferred bidder.

Despite being recommended for approval by officers, our planning application for the mixed-use development at Aberdeen Studios was rejected by Islington Council. We are now preparing to appeal the decision.

Negotiations continue on our planning application for a major mixed-use scheme at Thurston Road in Lewisham. We anticipate a decision during the current financial year.

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Financial Review

As noted in the Chairman's Statement, these are the first financial statements that have been prepared using the International Financial Reporting Standards (IFRS).

Under IFRS, the focus of the accounts has moved from the P & L Account (now called the Income Statement) to the Balance Sheet with this being prepared by reference to "fair values" of assets and liabilities rather than their historic costs as formerly. This fair valuing of assets will cause greater volatility as the valuation differences pass through the Income Statement. We have decided to preserve our practice of analysing our Income Statement between "Trading Operations" and non trading "Other Items". The valuation adjustments have been classified under other items alongside profits/losses on disposals of investment properties and other exceptional items. This approach has the advantage of presenting a trading performance which accords broadly with that presented previously under former UK GAAP in the "Trading Operations" column whilst drawing together the fair value adjustments made to these values under the "Other Items" column. Consequently, a more consistent pattern should be preserved in the Trading Operations column with the higher volatility items focussed in Other Items.

This approach also serves to spotlight the impact that these adjustments have, with trading earnings per share of 1.5p increasing by 7.2p (554%) to 8.5p as a result of these adjustments. This Other Items total has arisen principally due to the valuation surplus of £18.12m in the quarter (2004: £14.18m), less the difference arising from the revaluation of derivative financial instruments (the interest rate hedges used to shelter the Group from the impact of excessive changes in interest rates) which last year contributed £1.04m but this time showed a cost of £1.22m.

We propose reporting on this basis for the foreseeable future, whilst understanding of IFRS reporting develops. We will also continue to provide unaudited statements prepared under former UK GAAP on our website. Accompanying this report is a fuller statement advising on the changes under IFRS and providing a restatement of last years accounts. A copy of this will be placed on our website also.

Profits before tax, at £19.82m are up 6.6% (2004: £18.60m). However, at a Trading Operations level, there was a reduction from £3.49m in 2004/5 to £3.14m in the current year. Interest charges for the quarter were up £0.74m on last year, £0.35m being due to increases in interest rates. The average rate of LIBOR for the quarter was 0.46% higher than that for the comparable period last year. Since the quarter end LIBOR rates have declined and so, with the increases that occurred in the comparable periods last year, it is anticipated that year on year interest rate comparisons will show reductions for the remainder of the year. Adjusting for this increase in interest rates leaves Trading PBT level with that for the first quarter last year. Earnings growth in the period has also been impacted by reductions in net income on redevelopment and refurbishment projects which are not of a recurrent nature.

The other significant impact of the implementation of IFRS is that on reported net worth and net asset value per share. Here the key influence is the full recognition of deferred tax liabilities on valuation surpluses. This deferred tax liability will only accrue if the related assets are sold, which as investment properties is unlikely to any substantial degree in the foreseeable future. The deferred tax liability increased from £7.35m to £86.08m on restatement of the 31 March 2005 Balance Sheet (an adjustment of 47 pence per share), increasing to £91.15m at 30 June 2005 once the valuation surplus and other items in the quarter were accounted for (amounting to 54 pence per share). The impact of this adjustment has been exacerbated by the requirement under IFRS that indexation allowances, ordinarily allowable under UK tax law, be ignored in computing the deferred tax liability. As a result, the reported deferred tax liability overstates the tax liability estimated on the basis of gains measured at the reporting date by £15.6m (9.6 pence per share).

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The following table summarises the impacts of these changes:

| Net Assets per share | 31 March 2005 | Movements | 30 June 2005 |
|----------------------|------------------|-----------|-----------------|
| Under former UK GAAP | £2.24 | £0.11 | £2.35 |
| Adjustments | £(0.47) | £(0.03) | £(0.50) |
| Under IFRS | £1.77 | £0.08 | £1.85 |

During the quarter acquisitions totalling £13.1m were made. Following the quarter end a further £82.6m have been completed or contracted taking the total for the year to date to £95.7m. These acquisitions have been financed using the Group's existing facilities with Natwest and Bradford & Bingley. The latter of these has been increased by £70m to £270m, renewing the term to a fresh 5 year period maturing in July 2010. Once these acquisitions are complete, then the Group will have approximately £10m of available facilities. Negotiations are in hand for a further facility to support acquisitions. In addition, the review of the Group's portfolio may lead to receipts from disposals.

The reduction in net worth referred to earlier has a consequent impact on gearing. Your Board considers that gearing measurement should continue to be monitored under the former UK GAAP principles. As a result, both IFRS and former UK GAAP measures are incorporated in the following table of key financial statistics and indicators:

| | 3 months to 30 June 2005 | Year to 31 March 2005 | 3 months to 30 June 2004 |
|------------------------------------|--------------------------------|-----------------------------|--------------------------------|
| Net rental income: turnover | 72% | 74% | 73% |
| Trading operating profit: turnover | 58% | 60% | 59% |
| Trading PBT: turnover | 22% | 26% | 26% |
| EPS per share (pence) | 8.5 | 36.1 | 8.1 |
| NAV per share (£) – IFRS | 1.85 | 1.77 | 1.53 |
| – UK GAAP | 2.35 | 2.24 | 1.83 |
| Trading interest cover | 1.63 | 1.77 | 1.79 |
| Gearing – IFRS | 112% | 112% | 123% |
| – UK GAAP | 87% | 88% | 100% |
| Available facilities (£m) | *38.0 | 49.2 | 20.5 |

*Following the quarter end, available facilities were increased by £70m.

If the acquisitions completed or contracted following the quarter end had been completed at the quarter end then the gearing level under IFRS would have been 141% and under former UK GAAP 111%.

Prospects

The Group has made a sound start to the year. In particular, it has secured a number of acquisitions that offer good prospects for growth and which keep the Group on target for its overall development plan. Other acquisitions are under negotiation.

Earnings growth will be tempered in the immediate future, partly due to the largely neutral initial impact of new acquisitions and partly due to planned tenant departures at particular estates. Our schemes at Southbank, Clerkenwell and Enterprise should produce good earnings growth next year.

Operating and Financial Review

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Enquiries continue to be good with high levels of occupancy, and the rent review programme is meeting the Group's targets.

Longer term, we believe that the decision on the Olympics and the related wider infrastructure investment will assist growth in London and that our customer base of small and medium size businesses will benefit from this. Our market place is very substantial and growing and we are well placed to capitalise on this as the leading supplier of space for new and small businesses in London.

Consolidated Income Statement (unaudited)

for the 3 months ended 30 June 2005

| Year ended 31 March 2005 (restated) £000 | Notes | 3 months ended 30 June 2005 | | | 3 months ended 30 June 2004 (restated) £000 | |
|--|--|-------------------------------|------------------------|----------------|--|---------|
| | | Trading Operations £000 | Other Items £000 | Total £000 | | |
| 55,039 | Revenue | 1 | 13,947 | – | 13,947 | 13,404 |
| (14,071) | Direct costs | 1 | (3,899) | 13 | (3,886) | (3,584) |
| 40,968 | Net rental income | 1 | 10,048 | 13 | 10,061 | 9,820 |
| (7,643) | Administrative expenses | | (1,940) | 65 | (1,875) | (1,958) |
| 67,923 | Gain from change in fair value of investment property | | – | 18,117 | 18,117 | 14,181 |
| (75) | (Loss)/profit on disposal of investment properties | 2 | – | (14) | (14) | 23 |
| 101,173 | Operating profit | | 8,108 | 18,181 | 26,289 | 22,066 |
| 73 | Finance income – interest receivable | | 7 | – | 7 | 18 |
| (19,523) | Finance costs – interest payable | 3 | (4,979) | (280) | (5,259) | (4,524) |
| 1,097 | Change in fair value of derivative financial instruments | | – | (1,217) | (1,217) | 1,036 |
| 82,820 | Profit before tax | | 3,136 | 16,684 | 19,820 | 18,596 |
| (24,342) | Taxation | 4 | (951) | (4,988) | (5,939) | (5,624) |
| 58,478 | Profit for the period after tax and attributable to equity shareholders | | 2,185 | 11,696 | 13,881 | 12,972 |
| 36.1p | Basic earnings per share | 6 | 1.3p | 7.2p | 8.5p | 8.1p |
| 34.8p | Diluted earnings per share | 6 | 1.3p | 6.9p | 8.2p | 7.8p |

Other Items above include items, such as profits and losses (together with their related taxation) on sales of investment properties, of a non trading nature together with valuation adjustments arising from the fair valuing of financial assets and liabilities. The adjustment to direct costs arises from the treatment of head lease payments as interest, with the adjustment to administrative expenses from the estimation under IFRS2 of the services cost arising from the grant of share options and other non-cash remuneration to staff.

Consolidated Statement of Recognised Income and Expense (unaudited)

for the 3 months ended 30 June 2005

| Year ended 31 March 2005 (restated) £000 | | 3 months ended 30 June 2005 £000 | 3 months ended 30 June 2004 (restated) £000 |
|--|--|--|--|
| 58,478 | Profit for the financial period | 13,881 | 12,972 |
| 231 | Value of employee services | 80 | 38 |
| (15) | Convertible loan stock conversion | – | (15) |
| 58,694 | Total recognised income and expense for the period | 13,961 | 12,995 |

Consolidated Balance Sheet (unaudited)

as at 30 June 2005

| 31 March 2005 (restated) £000 | | Notes | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|--|-------|-------------------------|---------------------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| 716,537 | Investment properties | 8 | 751,201 | 636,426 |
| 143 | Intangible assets | | 139 | 185 |
| 3,523 | Property, plant and equipment | 10 | 3,600 | 3,443 |
| 720,203 | | | 754,940 | 640,054 |
| Current assets | | | | |
| 5,159 | Trade and other receivables | 11 | 8,124 | 13,849 |
| 187 | Financial assets – derivative financial instruments | | 91 | 710 |
| 1,251 | Financial assets – tenant deposits | 12 | 1,298 | 1,146 |
| 3 | Cash and cash equivalents | | 4 | 2,235 |
| 6,600 | | | 9,517 | 17,940 |
| Liabilities | | | | |
| Current liabilities | | | | |
| 817 | Financial liabilities – borrowings | 14 | 203 | 22 |
| 24,816 | Trade and other payables | 13 | 29,380 | 29,239 |
| 2,507 | Current tax liabilities | | 1,520 | 4,354 |
| 28,140 | | | 31,103 | 33,615 |
| (21,540) | Net current liabilities | | (21,586) | (15,675) |
| Non current liabilities | | | | |
| 322,402 | Financial liabilities – borrowings | 14 | 336,936 | 304,601 |
| 1,729 | Financial liabilities – derivative financial instruments | | 2,850 | 2,313 |
| 86,075 | Deferred tax liabilities | 16 | 91,150 | 70,215 |
| 410,206 | | | 430,936 | 377,129 |
| 288,457 | Net assets | | 302,418 | 247,250 |
| Shareholders' equity | | | | |
| 16,884 | Ordinary shares | 17 | 16,884 | 1,686 |
| 28,388 | Share premium | 19 | 28,388 | 43,469 |
| (5,519) | Investment in own shares | 20 | (5,519) | (6,096) |
| 461 | Other reserves | 18 | 541 | 268 |
| 248,243 | Retained earnings | 19 | 262,124 | 207,923 |
| 288,457 | Total shareholders' equity | 19 | 302,418 | 247,250 |
| £1.77 | Net asset value per share (basic) | 7 | £1.85 | £1.53 |
| £2.22 | Adjusted net asset value per share (diluted) | 7 | £2.33 | £1.89 |

Consolidated Cash Flow Statement (unaudited)

for the 3 months ended 30 June 2005

| Year ended 31 March 2005 (restated) £000 | | Notes | 3 months ended 30 June 2005 £000 | 3 months ended 30 June 2004 (restated) £000 |
|--|---|-------|--|--|
| Cash flows from operating activities | | | | |
| 33,870 | Cash generated from operations | 15 | 8,735 | 9,965 |
| 73 | Interest received | | 7 | 18 |
| (19,714) | Interest paid | | (4,412) | (4,024) |
| (3,179) | Tax paid | | (850) | (813) |
| 11,050 | Net cash from operating activities | | 3,480 | 5,146 |
| Cash flows from investing activities | | | | |
| (44,944) | Purchase of investment property | | (13,627) | (4,890) |
| (9,543) | Capital expenditure on investment property | | (4,790) | (1,800) |
| 35,362 | Proceeds from sales of investment property | | 2,312 | 6,721 |
| (2,745) | Taxation on disposal of investment property | | (1,000) | (407) |
| (44) | Purchase of intangible assets | | (19) | (15) |
| (823) | Purchase of property, plant and equipment | | (228) | (145) |
| (22,737) | Net cash used in investing activities | | (17,352) | (536) |
| Cash flows from financing activities | | | | |
| 287 | Net proceeds from issue of ordinary share capital | | – | 170 |
| 16,300 | Net proceeds from issue of new bank loan | | 14,500 | – |
| – | Repayment of borrowings | | – | (1,500) |
| 687 | Net distribution of own shares | | – | 110 |
| (51) | Finance lease principal payments | | (13) | (13) |
| (5,186) | Dividend paid to shareholders | | – | – |
| 12,037 | Net cash from/(used in) financing activities | | 14,487 | (1,233) |
| 350 | Net increase in cash and cash equivalents | | 615 | 3,377 |
| (1,159) | Cash and cash equivalents at start of period | | (809) | (1,159) |
| (809) | Cash and cash equivalents at end of period | 15 | (194) | 2,218 |

Notes to the Quarterly Results

1. Analysis of net rental income

| Year ended 31 March 2005 (restated) | | | | 3 months ended 30 June 2005 | | | 3 months ended 30 June 2004 (restated) | | |
|--|---------------|----------------|---------------------------------|--------------------------------|----------------|----------------|---|---------------|----------------|
| Net Rental | | | | Net Rental | | | Net Rental | | |
| Revenue £000 | Costs £000 | Income £000 | | Revenue £000 | Costs £000 | Income £000 | Revenue £000 | Costs £000 | Income £000 |
| 43,270 | (278) | 42,992 | Rental income | 10,950 | (47) | 10,903 | 10,721 | (105) | 10,616 |
| | | | Service charges and other | | | | | | |
| 9,865 | (13,482) | (3,617) | recoveries | 2,634 | (3,720) | (1,086) | 2,398 | (3,490) | (1,092) |
| | | | Services, fees, commissions and | | | | | | |
| 1,904 | (311) | 1,593 | sundry income | 363 | (119) | 244 | 285 | 11 | 296 |
| 55,039 | (14,071) | 40,968 | | 13,947 | (3,886) | 10,061 | 13,404 | (3,584) | 9,820 |

The Group operates a single business segment providing business accommodation for rent in London and the South East of England, which is continuing.

2. (Loss)/profit on disposal of investment properties

| Year ended 31 March 2005 (restated) £000 | | | 3 months ended 30 June 2005 £000 | 3 months ended 30 June 2004 (restated) £000 |
|--|---|--|--|--|
| 34,721 | Proceeds from sale of investment properties | | 2,100 | 11,880 |
| (34,796) | Book value at time of sale plus sale costs | | (2,114) | (11,857) |
| (75) | (Loss)/profit on sale | | (14) | 23 |
| (4,007) | Current tax | | (220) | (2,489) |
| 4,485 | Deferred tax released on sale | | 278 | 2,497 |
| 478 | Net tax | | 58 | 8 |
| 403 | Net profit on disposal after tax | | 44 | 31 |

On 27 May 2005 the Group disposed of Payne Road Studios and 5 Payne Road, London, E3 for £2.1m.

3. Finance costs – interest payable

| Year ended 31 March 2005 (restated) £000 | | | 3 months ended 30 June 2005 £000 | 3 months ended 30 June 2004 (restated) £000 |
|--|---|--|--|--|
| Interest expense: | | | | |
| 16,806 | Interest payable on bank borrowings | | 4,589 | 3,892 |
| 391 | Amortisation of issue costs of bank loans | | 101 | 90 |
| 51 | Interest payable on finance leases | | 13 | 13 |
| 1,391 | Interest payable on 11.125% First Mortgage Debenture Stock 2007 | | 347 | 347 |
| 814 | Interest payable on 11.625% First Mortgage Debenture Stock 2007 | | 204 | 204 |
| 284 | Interest payable on 11% Convertible Loan Stock 2011 | | 71 | 70 |
| (214) | Interest capitalised on investment property re-developments | | (66) | (92) |
| 19,523 | | | 5,259 | 4,524 |

Notes to the Quarterly Results

continued

4. Taxation

| Year ended | | 3 months | 3 months |
|------------|------------------------------|--------------|------------|
| 31 March | | ended | ended |
| 2005 | | 30 June | 30 June |
| (restated) | | 2005 | (restated) |
| £000 | Analysis of charge in period | £000 | £000 |
| 6,190 | Current tax | 864 | 3,332 |
| 18,152 | Deferred tax (see note 16) | 5,075 | 2,292 |
| 24,342 | Total taxation | 5,939 | 5,624 |

The tax on the Group's profit for the period is lower than the standard applicable corporation tax rate in the UK (30%). The differences are explained below:

| | | | |
|--------|--|---------------|--------|
| 82,820 | Profit before taxation | 19,820 | 18,596 |
| 24,846 | Tax at standard rate of corporation tax in the UK of 30% (2004/5: 30%) | 5,946 | 5,579 |
| 14 | Expenses not deductible for tax purposes | 10 | 25 |
| 64 | Other differences (mainly re: share based payments) | 38 | 35 |
| (408) | Capital gains adjustments on property disposals | (55) | (15) |
| (5) | Reductions due to application of small companies rate | – | – |
| (169) | Adjustment in respect of previous periods | – | – |
| 24,342 | Tax expense | 5,939 | 5,624 |

5. Dividends paid

| Year ended | | 3 months | 3 months |
|------------|---|----------|------------|
| 31 March | | ended | ended |
| 2005 | | 30 June | 30 June |
| (restated) | | 2005 | (restated) |
| £000 | | £000 | £000 |
| 3,349 | Final dividend for year ended 31 March 2004 of 2.07p* per ordinary share paid 2 August 2004 | – | – |
| 1,837 | Interim dividend for year ended 31 March 2005 of 1.13p* per ordinary share paid 1 February 2005 | – | – |
| 5,186 | Dividends paid out of retained earnings (see note 19) | – | – |

*Figures adjusted to reflect bonus share issue made in March 2005.

Notes to the Quarterly Results

continued

6. Earnings per share

a) Earnings used in calculating earnings per share

| Year ended | | 3 months | 3 months |
|------------|---|-----------------|--------------------|
| 31 March | | ended | ended |
| 2005 | | 30 June | 30 June |
| (restated) | | 2005 | 2004 |
| £000 | | £000 | (restated) £000 |
| 58,478 | Earnings for basic earnings per share | 13,881 | 12,972 |
| 191 | Interest saving net of taxation on 11% Convertible Loan Stock | 30 | 8 |
| 58,669 | Diluted earnings | 13,911 | 12,980 |
| (48,229) | Less non trading other items | (11,696) | (10,557) |
| 10,440 | Trading diluted earnings | 2,215 | 2,423 |

b) Weighted average number of shares used for calculating earnings per share

| Year ended | | 3 months | 3 months |
|-------------|---|--------------------|----------------------|
| 31 March | | ended | ended |
| 2005 | | 30 June | 30 June |
| (restated) | | 2005 | 2004 |
| Number | | Number | (restated) Number |
| 161,931,920 | Weighted average number of shares (excluding shares held in the ESOT) | 163,256,213 | 16,053,769 |
| – | Increase due to capitalisation (March 2005) | – | 144,483,921 |
| 161,931,920 | Used for calculating basic earnings per share (excluding shares held in the ESOT) | 163,256,213 | 160,537,690 |
| 1,682,780 | Dilution due to Share Option Scheme | 1,750,575 | 190,022 |
| 5,000,000 | Dilution due to Convertible Loan Stock | 5,000,000 | 500,000 |
| – | Increase due to capitalisation (March 2005) | – | 6,210,198 |
| 168,614,700 | Used for calculating diluted earnings per share | 170,006,788 | 167,437,910 |

7. Net assets per share

a) Net assets used in calculating net assets per share

| 31 March | | 30 June | 30 June |
|------------|--|----------------|------------|
| 2005 | | 2005 | 2004 |
| (restated) | | 2005 | (restated) |
| £000 | | £000 | £000 |
| 288,457 | Net assets at end of period | 302,418 | 247,250 |
| 2,484 | Dilution due to Convertible Loan Stock | 2,417 | 2,407 |
| 290,941 | Diluted net assets | 304,835 | 249,657 |
| 6,541 | Deferred tax on accelerated tax depreciation | 6,766 | 4,932 |
| 80,029 | Deferred tax on fair value change of investment properties | 85,206 | 65,858 |
| (463) | Deferred tax on derivative financial instruments | (828) | (481) |
| 377,048 | Adjusted diluted net assets | 395,979 | 319,966 |

Notes to the Quarterly Results

continued

7. Net assets per share continued

b) Number of shares used for calculating net assets per share

| 31 March 2005 (restated) Number | | 30 June 2005 Number | 30 June 2004 (restated) Number |
|--|---|---------------------------|---|
| 168,839,660 | Shares in issue at end of period | 168,839,660 | 16,863,811 |
| (5,620,370) | Less ESOT shares | (5,380,370) | (667,066) |
| – | Increase due to capitalisation (March 2005) | – | 145,770,705 |
| 163,219,290 | Number of shares for calculating basic net assets per share | 163,459,290 | 161,967,450 |
| 1,682,780 | Dilution due to Share Option Scheme | 1,750,575 | 190,022 |
| 5,000,000 | Dilution due to Convertible Loan Stock | 5,000,000 | 500,000 |
| – | Increase due to capitalisation (March 2005) | – | 6,210,198 |
| 169,902,070 | Number of shares for calculating diluted net assets per share | 170,209,865 | 168,867,670 |

8. Investment properties

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---|-------------------------|---------------------------------------|
| 626,817 | Balance at beginning of period | 716,537 | 626,817 |
| 55,973 | Additions during the period | 18,582 | 7,117 |
| 214 | Capitalised interest on re-developments | 66 | 92 |
| (34,385) | Disposals during the period | (2,100) | (11,780) |
| 67,923 | Gain from fair value adjustments on investment property | 18,117 | 14,181 |
| (5) | Amortisation of finance leases | (1) | (1) |
| 716,537 | Balance at end of period | 751,201 | 636,426 |

Capitalised interest is included as an addition in the period, the rate of capitalisation is 5.94% (31 March 2005: 5.79%; 30 June 2004: 5.48%).

9. Valuation

The Group's investment properties were revalued at 30 June 2005 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction. A full valuation of the portfolio was not undertaken by CB Richard Ellis at 30 June 2004 and has not been undertaken retrospectively. The value for 30 June 2004 has been arrived at by CB Richard Ellis on a pro-rata basis using the actual valuations that were undertaken by CB Richard Ellis both at 31 March 2004 and 30 September 2004, taking into account properties purchased and sold, the actual change in total income and consideration of the performance of the IPD Property Index over this period.

Included in the CB Richard Ellis valuations is an amount in respect of the Company's short leasehold interest (expiring 11 February 2011) in the Alpha Business Centre, Walthamstow. For accounts purposes, as the unexpired term of the leasehold interest in Alpha Business Centre is less than 20 years, the valuation of the property has been retained at a nominal £1. The adjustment from the valuation report total to the accounts total may be reconciled as follows:

Notes to the Quarterly Results

continued

9. Valuation continued

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---|-------------------------|---------------------------------------|
| 718,425 | Total per CB Richard Ellis valuation report | 753,090 | 638,185 |
| (350) | Alpha Business Centre | (350) | (400) |
| (2,290) | Owner occupied property | (2,290) | (2,115) |
| 752 | Head leases treated as finance leases under IAS17 | 751 | 756 |
| 716,537 | Total per accounts | 751,201 | 636,426 |

10. Property, plant and equipment

| | Owner occupied land £000 | Owner occupied buildings £000 | Motor Vehicles £000 | Equipment and Fixtures £000 | Total £000 |
|--|-----------------------------------|--|---------------------------|--------------------------------------|---------------|
| Cost | | | | | |
| Balance at 1 April 2004 (restated) | 500 | 1,525 | 25 | 4,165 | 6,215 |
| Additions | – | 5 | – | 140 | 145 |
| Disposals | – | – | – | – | – |
| Balance at 30 June 2004 (restated) | 500 | 1,530 | 25 | 4,305 | 6,360 |
| Balance at 1 April 2004 (restated) | 500 | 1,525 | 25 | 4,165 | 6,215 |
| Additions | – | 9 | – | 813 | 822 |
| Disposals | – | – | – | (939) | (939) |
| Balance at 31 March 2005 (restated) | 500 | 1,534 | 25 | 4,039 | 6,098 |
| Balance at 1 April 2005 | 500 | 1,534 | 25 | 4,039 | 6,098 |
| Additions | – | 60 | 1 | 168 | 229 |
| Disposals | – | – | – | – | – |
| Balance at 30 June 2005 | 500 | 1,594 | 26 | 4,207 | 6,327 |
| Cumulative depreciation to 30 June 2004 (restated) | – | 7 | 13 | 2,897 | 2,917 |
| Net book value at 30 June 2004 (restated) | 500 | 1,523 | 12 | 1,408 | 3,443 |
| Cumulative depreciation to 31 March 2005 (restated) | – | 30 | 15 | 2,530 | 2,575 |
| Net book value at 31 March 2005 (restated) | 500 | 1,504 | 10 | 1,509 | 3,523 |
| Cumulative depreciation to 30 June 2005 | – | 38 | 16 | 2,673 | 2,727 |
| Net book value at 30 June 2005 | 500 | 1,556 | 10 | 1,534 | 3,600 |

At 1 April 2004, the fair value of owner occupied land and buildings was adopted as the deemed cost of those assets. The fair value of owner occupied land and buildings was £2,025,000 and the carrying value at 1 April 2004 under UK GAAP was £2,036,401.

Notes to the Quarterly Results

continued

11. Trade and other receivables – current

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---|-------------------------|---------------------------------------|
| 3,484 | Trade debtors | 3,630 | 5,129 |
| (385) | Less: provision for impairment of receivables | (523) | (439) |
| 3,099 | Trade debtors – net | 3,107 | 4,690 |
| – | – Deferred consideration on sale of property | – | 5,000 |
| – | – Taxation and social security | – | 4 |
| 2,060 | Prepayments and accrued income | 5,017 | 4,155 |
| 5,159 | | 8,124 | 13,849 |

12. Tenant deposits

Financial assets – tenant deposits represent returnable cash security deposits received from tenants. These deposit deeds are ring-fenced under the terms of the individual lease contracts and cannot be used to fund the working capital of the Group. They are accordingly held separately from other cash balances and excluded from cash and cash equivalents.

13. Trade and other payables – current

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|--|-------------------------|---------------------------------------|
| 2,219 | Trade payables | 4,449 | 4,092 |
| 1,111 | Taxation and social security payable | 2,370 | 4,328 |
| 1,251 | Tenants' deposit deeds | 1,298 | 1,146 |
| 4,869 | Tenants' deposits | 4,975 | 4,492 |
| 10,525 | Accrued expenses | 11,421 | 10,191 |
| 4,841 | Deferred income-rent and service charges | 4,867 | 4,990 |
| 24,816 | | 29,380 | 29,239 |

Notes to the Quarterly Results

continued

14. Financial liabilities – borrowings

a) Balances

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---|-------------------------|---------------------------------------|
| Current | | | |
| 812 | Bank loan and overdrafts due within one year or on demand (secured) | 198 | 17 |
| 5 | Finance lease obligations | 5 | 5 |
| 817 | | 203 | 22 |
| Non-current | | | |
| 2,484 | 11% Convertible Loan Stock 2011 (unsecured) | 2,417 | 2,407 |
| 12,500 | 11.125% First Mortgage Debenture Stock 2007 (secured) | 12,500 | 12,500 |
| 7,000 | 11.625% First Mortgage Debenture Stock 2007 (secured) | 7,000 | 7,000 |
| 299,671 | Other loans (secured) | 314,273 | 281,943 |
| 747 | Finance lease obligations | 746 | 751 |
| 322,402 | | 336,936 | 304,601 |
| 323,219 | | 337,139 | 304,623 |

b) Maturity

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|------------------------------------|-------------------------|---------------------------------------|
| Secured | | | |
| 812 | Less than one year | 198 | 17 |
| – | Between one year and two years | – | – |
| 219,500 | Between two years and three years | 219,500 | 83,000 |
| – | Between three years and four years | – | 219,500 |
| 100,800 | Between four years and five years | 115,300 | – |
| 321,112 | | 334,998 | 302,517 |
| (1,129) | Less cost of raising finance | (1,027) | (1,057) |
| 319,983 | | 333,971 | 301,460 |
| Unsecured | | | |
| 2,484 | In five years and more | 2,417 | 2,407 |
| Finance Leases | | | |
| 752 | In five years and more | 751 | 756 |
| 323,219 | | 337,139 | 304,623 |

Notes to the Quarterly Results

continued

14. Financial Liabilities – borrowings continued

c) Financial instruments held at fair value

The following interest rate caps and collars are held:

| | Amount hedged £000 | Interest Rate Cap | Interest Rate Floor | Expiry |
|------------------------------|--------------------------|----------------------|------------------------|-----------|
| Interest rate cap and collar | 104,200 | 8.00% | 4.50% | July 2009 |
| Interest rate cap and collar | 75,000 | 6.95% | 4.05% | July 2009 |

Both these instruments are treated as financial instruments at fair value with changes in value dealt with in the income statement at each reporting date.

d) Fair values of financial instruments

| 31 March 2005 (restated) | | 30 June 2005 | | 30 June 2004 (restated) | |
|--|--------------------|--------------------|--------------------|-------------------------|--------------------|
| Book Value £000 | Fair Value £000 | Book Value £000 | Fair Value £000 | Book Value £000 | Fair Value £000 |
| Financial instruments not at fair value through profit and loss | | | | | |
| 812 | 812 | 198 | 198 | 17 | 17 |
| 2,484 | 8,800 | 2,417 | 8,930 | 2,407 | 8,524 |
| 12,500 | 13,474 | 12,500 | 13,376 | 12,500 | 13,549 |
| 7,000 | 7,601 | 7,000 | 7,535 | 7,000 | 7,652 |
| 299,671 | 299,671 | 314,273 | 314,273 | 281,943 | 281,943 |
| 752 | 752 | 751 | 751 | 756 | 756 |
| 323,219 | 331,110 | 337,139 | 345,063 | 304,623 | 312,441 |
| Financial instruments at fair value through profit and loss | | | | | |
| Derivative financial instruments: | | | | | |
| 1,729 | 1,729 | 2,850 | 2,850 | 2,313 | 2,313 |
| (187) | (187) | (91) | (91) | (710) | (710) |
| 1,542 | 1,542 | 2,759 | 2,759 | 1,603 | 1,603 |
| 324,761 | 332,652 | 339,898 | 347,822 | 306,226 | 314,044 |

The total gain/loss recorded in the income statement was £1,217,000 loss (31 March 2005: £1,097,000 gain, 30 June 2004: £1,036,000 gain) for changes in fair value of derivative financial instruments.

The fair value of the interest rate collars has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 4.9p per share (31 March 2005: 4.8p, 30 June 2004: 3.8p). Comparatives have been restated for bonus issue in March 2005.

Notes to the Quarterly Results

continued

15. Cash generated from operations

Reconciliation of profit for the period to cash generated from operations:

| Year ended 31 March 2005 (restated) £000 | | 3 months ended 30 June 2005 £000 | 3 months ended 30 June 2004 (restated) £000 |
|--|---|--|--|
| 58,478 | Profit for the period | 13,881 | 12,972 |
| 24,342 | Tax | 5,939 | 5,624 |
| 567 | Depreciation | 151 | 150 |
| 96 | Amortisation of intangible assets | 23 | 24 |
| (15) | Share based payments (credit)/expense | (65) | 26 |
| 75 | Profit on disposals of investment property | 14 | (23) |
| (67,923) | Net gain from fair value adjustments on investment property | (18,117) | (14,181) |
| (1,097) | Fair value gains on financial instruments | 1,217 | (1,036) |
| (73) | Interest income | (7) | (18) |
| 19,523 | Interest expense | 5,259 | 4,524 |
| | Changes in working capital: | | |
| 46 | (Increase)/decrease in trade and other receivables | (3,030) | (2,616) |
| (149) | Increase/(decrease) in trade and other payables | 3,470 | 4,519 |
| 33,870 | Cash generated from operations | 8,735 | 9,965 |

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

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---------------------------|-------------------------|---------------------------------------|
| 3 | Cash and bank balances | 4 | 2,235 |
| (812) | Bank overdrafts (note 14) | (198) | (17) |
| (809) | | (194) | 2,218 |

Total tax paid in the period was £1,850,000 (31 March 2005: £5,924,000; 30 June 2004 £1,220,000).

Notes to the Quarterly Results

continued

16. Deferred tax liabilities

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|--|-------------------------|---------------------------------------|
| 67,934 | Balance at start of period | 86,075 | 67,934 |
| 18,152 | Deferred tax charge to Income Statement | 5,075 | 2,292 |
| (11) | Deferred tax credit to equity re: conversion of convertible loan stock | – | (11) |
| 86,075 | Balance at end of period | 91,150 | 70,215 |

Deferred tax liability recognised in the balance sheet by each category of temporary timing difference is as follows:

| 31 March 2005 (restated) £000 | | 30 June 2005 £000 | 30 June 2004 (restated) £000 |
|--|---|-------------------------|---------------------------------------|
| 80,029 | Fair value gains on investment properties | 85,206 | 65,858 |
| 6,541 | Accelerated tax depreciation | 6,766 | 4,932 |
| (463) | Derivative financial instruments | (828) | (481) |
| (32) | Other | 6 | (94) |
| 86,075 | | 91,150 | 70,215 |

If the investment properties were sold for their revalued amount, there would be a potential liability to corporation tax of £69,579,000 (31 March 2005: £64,456,000, 30 June 2004: £48,175,000). Under IFRS no account is taken of indexation relief on capital gains resulting in the difference between expected corporation tax to be paid and the provision made for deferred tax.

17. Share capital

| 31 March 2005 (restated) Number | | 30 June 2005 Number | 30 June 2004 (restated) Number |
|--|--|---------------------------|---|
| 240,000,000 | Authorised: Ordinary Shares of 10p each | 240,000,000 | 21,500,000 |
| 168,839,660 | Issued: Fully paid ordinary shares of 10p each | 168,839,660 | 16,863,811 |
| | £ | £ | £ |
| 16,883,966 | Issued: Fully paid ordinary shares of 10p each | 16,883,966 | 1,686,381 |

Movements in share capital were as follows:

| 31 March 2005 (restated) Number | | 30 June 2005 Number | 30 June 2004 (restated) Number |
|--|-----------------------------------|---------------------------|---|
| 16,733,811 | No shares at start of period | 168,839,660 | 16,733,811 |
| 151,955,694 | Bonus issue | – | – |
| 50,000 | Executive Share Options exercised | – | 50,000 |
| 20,155 | Employee Share Options exercised | – | – |
| 80,000 | Convertible Loan Stock converted | – | 80,000 |
| 168,839,660 | No shares at end of period | 168,839,660 | 16,836,811 |

Notes to the Quarterly Results

continued

18. Other reserves

| 31 March 2005 (restated) Total £000 | | Equity element of convertible loan stock £000 | Equity settled share based payments £000 | 30 June 2005 Total £000 | 30 June 2004 (restated) Total £000 |
|---|-----------------------------------|---|--|----------------------------------|--|
| 254 | At start of period | 151 | 310 | 461 | 254 |
| (35) | Convertible Loan Stock conversion | – | – | – | (35) |
| 11 | Deferred tax on conversion | – | – | – | 11 |
| 231 | Value of employee services | – | 80 | 80 | 38 |
| 461 | At end of period | 151 | 390 | 541 | 268 |

19. Statement of changes in shareholders equity

| 31 March 2005 (restated) Total £000 | | 30 June 2005 | | | | | Total Equity £000 | 30 June 2004 (restated) Total £000 |
|---|-----------------------------------|--------------------------|--------------------------|--|---------------------------|------------------------------|-------------------------|--|
| | | Share Capital £000 | Share Premium £000 | Investment in Own Shares £000 | Other Reserves £000 | Retained Earnings £000 | | |
| 233,575 | At start of period | 16,884 | 28,388 | (5,519) | 461 | 248,243 | 288,457 | 233,575 |
| 697 | Share issues | – | – | – | – | – | – | 570 |
| (10) | Share issue transaction costs | – | – | – | – | – | – | – |
| 687 | Distribution of own shares | – | – | – | – | – | – | 110 |
| (5,186) | Dividends paid | – | – | – | – | – | – | – |
| (26) | Convertible Loan Stock conversion | – | – | – | – | – | – | (26) |
| 11 | Deferred tax on conversion | – | – | – | – | – | – | 11 |
| 231 | Value of employee services | – | – | – | 80 | – | 80 | 38 |
| 58,478 | Profit for the period | – | – | – | – | 13,881 | 13,881 | 12,972 |
| 288,457 | At end of period | 16,884 | 28,388 | (5,519) | 541 | 262,124 | 302,418 | 247,250 |

20. Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. During the period the Trust transferred 240,000 shares to employees on exercise of options. At 30 June 2005, the number of shares held by the Trust totalled 5,380,370 (31 March 2005: 5,620,370) with a book value of £5,518,800 (31 March 2005: £5,518,880). The shares have been included in shareholders equity (see note 19). 5,369,010 shares held by the Trust are subject to option awards.

21. Capital commitments

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

| 31 March 2005 £000 | | 30 June 2005 £000 | 30 June 2004 £000 |
|--------------------------|--|-------------------------|-------------------------|
| 8,859 | Under contract | 9,452 | 2,115 |
| 12,550 | Authorised by Directors but not contracted | 34,168 | 20,227 |

Notes to the Quarterly Results

continued

22. Post balance sheet events

Following 30 June 2005 contracts have been exchanged or completed for the purchase of:

| | Cash Consideration |
|--|---------------------------|
| Evelyn Court, London, SE8 (completed) | £2.6m |
| Uplands Business Park, London, E15 (completed) | £24.0m |
| Kennington Park, London, SW9 (exchanged) | £56.0m |

23. Basis of preparation

This is the Group's first report prepared under International Financial Reporting Standards (IFRS). The financial information reflects the current versions of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). IFRS will continue to evolve through development and adoption of new Standards and Interpretations as well as through practical experience gained from the application of IFRS by reporting entities and their auditors. For these reasons, the information contained in this document may be amended before its presentation in the audited financial statements of the Group for the year ended 31 March 2006.

UK generally accepted accounting practice (UK GAAP) differs in certain respects from IFRS. The comparative figures used within this report have been restated accordingly. The Group has issued an explanation and reconciliation of the adjustments from UK GAAP to IFRS for 31 March 2004 and 31 March 2005 and a statement of its IFRS accounting policies in the document entitled "Workspace Group PLC – Adoption of International Financial Reporting Standards (IFRS)" which is available from the Group's website or Company Secretary. An explanation and reconciliation of the adjustments from UK GAAP to IFRS for the period ended 30 June 2004 is shown in note 24 below.

The accounting policies set out in the document "Workspace Group PLC – Adoption of International Financial Reporting Standards (IFRS)" have been applied in preparing the financial information contained in this report.

This report was approved by the Board on 31 August 2005.

This report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year to 31 March 2005, which were prepared under UK GAAP have been delivered to the Registrar of Companies.

24. Explanation and reconciliation of IFRS adjustments

The principal differences between UK GAAP and IFRS as they affect the reported results and their presentation of Workspace Group are set out below:

IAS 40 Investment property

IAS 40 requires that the revaluation gains or losses on investment property held at fair value be recognised on the face of the Income Statement rather than in reserves in the Statement of Group Total Recognised Gains and Losses as is the case under UK GAAP. As a result the revaluation reserve is no longer shown as a separate component of equity in the Balance Sheet but is included within retained earnings, and is non distributable.

Under UK GAAP, on disposal of properties the tax due on the realisation of gains previously recognised through the revaluation reserve was shown in the Statement of Group Total Recognised Gains and Losses. Under IFRS it is included in the Income Statement. The tax due on sale will comprise an element in the Income Statement current tax charge (being the difference between the sales price and property's carrying value at the point of disposal) and a transfer from the deferred tax reserve of the deferred tax amount already provided in previous periods.

Notes to the Quarterly Results

continued

24. Explanation and reconciliation of IFRS adjustments continued

IAS 12 Income taxes

IAS 12 requires full provision to be made for the deferred tax on revaluation gains or losses of investment properties at the tax rate estimated at the point of realisation. A tax charge therefore arises in the Income Statement if a revaluation surplus occurs, the corresponding entry being a deferred tax liability in the balance sheet. Under IAS 12 the provision for deferred tax will take no account of indexation allowances afforded under UK taxation law, the tax provided is not a calculation of potential Capital Gains Tax liability. Under UK GAAP the liability is an estimate of the Capital Gains Tax, but is not provided for, only disclosed in the notes (note 17 in the 31 March 2005 accounts).

IAS 17 Leases

IAS 17 requires leases, whether as the lessee or lessors to be examined, to differentiate between finance and operating leases. Most property leases were recognised as operating leases under UK GAAP but under IFRS different criteria may mean some are considered as finance leases. Leases which extend for long periods and therefore under which a substantial portion of the asset life is consumed, may be regarded as finance leases.

- a) Head leases. Some (or some parts) of the investment properties of the Group are held under long leases which under IFRS are classified as finance leases so requiring recognition of a liability based on the minimum lease payments and a corresponding increase in the carrying value of the investment property. Many of these head leases incur only a peppercorn rent hence creating no finance lease liability. For head leases with rental payments other than peppercorn the rent paid is split between interest payable and repayment of the lease liability. Any rent payable in excess of the minimum lease payments as identified at initial recognition of the lease is considered as contingent rent and is expensed immediately.

Under UK GAAP leasehold investment properties were reported at the valuation of the legal interest owned.

- b) Tenant leases are subject to the same tests. Because of the multi tenanted nature of the Group's buildings and the short-term nature of most tenancies, no leases granted by the Group have been determined to be finance leases.

SIC-15 Operating Lease – Incentives

SIC-15 requires that any lease incentives offered to tenants, such as rent free periods or reduced initial rents are recognised over the lease term. An adjustment is therefore made to increase revenue in the Income Statement and create a financial asset. Under UK GAAP any incentive was spread to the shorter of the lease term or periods to the first rent review or lease break. The Group has granted no material operating lease incentives.

IAS 10 Events after the Balance Sheet Date

IAS 10 requires dividends only to be recognised when there is an irrevocable legal obligation to make payment. The final dividend does not become irrevocable until approved by the members at the Annual General Meeting. Under IFRS the final dividend is therefore not recognised until approved and interim dividend not recognised until paid.

IAS 16 Property, Plant and Equipment

IAS 16 requires owner occupied property to be shown as part of Property, Plant and Equipment. The Group's head office is defined as owner occupied property. As land has an indefinite life and buildings a finite life the land and building elements of the owner occupied property are shown separately, the latter being depreciated over the expected useful life and the former not being depreciated. Under UK GAAP the whole property was subject to depreciation. The valuation of the asset at the date of transition to IFRS is taken to be its deemed cost, any surplus or deficit being recognised in retained reserves.

Notes to the Quarterly Results

continued

24. Explanation and reconciliation of IFRS adjustments continued

IAS 23 Borrowing costs

IAS 23 allows the capitalisation of directly attributable borrowing costs on the creation or refurbishment of property by applying the weighted average borrowing costs to the expenditures on the asset. In the case of investment properties only the expenditure on the improvement costs may be subject to capitalisation of related borrowing costs and the underlying carrying cost of the property is excluded. Under UK GAAP interest capitalisation arose on both the original value of the investment property and on the improvement costs.

IAS 38 Intangible Assets

IAS 38 requires externally acquired computer software to be classified as an intangible asset. Under UK GAAP software was shown within fixtures and fittings amongst other tangible assets.

IAS 32/39 Financial Instruments: Disclosure and Presentation, Recognition and Measurement

- a) IAS 32 requires the Convertible Loan Stock to be split into its equity and debt components. The debt element is carried at amortised cost, amortised over the life of the instrument, such that interest is charged at a constant effective interest rate compared to the liability outstanding at any given point in time. Under UK GAAP the instrument was considered wholly as debt.
- b) IAS 32 requires derivative financial instruments to be valued at fair value through the Income Statement and their carrying values shown in the Balance Sheet unless they meet the IFRS hedging criteria. Under UK GAAP the fair value of such items was disclosed by way of a note and any original cost amortised over the life of the item.
- c) IAS 39 requires the identification of any embedded derivatives in the Group's contractual arrangements. Embedded derivatives are derivative instruments that have been combined with other contractual arrangements to create a composite contract. The Group currently believes it has no material embedded derivatives.

IAS 7 Cash Flow Statements

IAS 7 defines cash and cash equivalents to include short-term, highly liquid investments, thus including short-term bank deposits. Cash equivalents were shown as investments under UK GAAP.

IFRS 2 Share-based payment

The Group operates an employee Save as You Earn Scheme, an Executive Share Option Scheme and a Long Term Incentive Plan (LTIP). IFRS 2 requires the cost of services provided where payment is made through a share based payment scheme to be recognised as an expense in the Income Statement over their vesting periods and requires that where there is no reliable estimate of the cost of these services, then the fair value of the options granted should be recognised as the cost of services. The fair values have been estimated by use of the Black- Scholes option valuation model in the case of the SAYE and Executive Share Option Schemes which have non market related performance conditions and by use of Monte Carlo simulation in the case of the LTIP whose performance conditions are market related. Subsequent changes in fair value are shown as an expense in the Income Statement. Provision is also made for employer's National Insurance costs relating to share based payment schemes.

Under UK GAAP, the SAYE and Executive Share Option Schemes were not directly recognised as an expense (although the interest costs arising from borrowings made to finance the purchase of shares held in the Group's ESOT to satisfy option exercises were recognised, together with share dilution where new shares were issued). The purchase cost of the matching shares was recognised for the LTIP on a straight line basis over the vesting period. Employer's National Insurance costs were recognised on share options expected to meet their vesting criteria.

IAS 7 Cash Flow statements

Under IFRS the consolidated cash flow statement describes movements in cash and cash equivalents. Under UK GAAP the cash flow analyses movements in cash only. With that exception there are no material differences between the previously published and restated cash flow statements.

Notes to the Quarterly Results

continued

24. Explanation and reconciliation of IFRS adjustments continued

Reconciliation of consolidated profit for the 3 months ended 30 June 2004

| | Previous GAAP £000s | IAS 40 Investment Property £000s | IAS 12 Contingent tax £000s | IAS 17 Property head leases £000s | IAS 23 Capitalisation of interest £000s | IAS 32/39 Convertible loan stock £000s | IAS 39 Fair value of derivatives £000s | IFRS 2 Share based payments £000s | Restated under IFRS £000s |
|--|---------------------------|---|--------------------------------------|--|--|---|---|--|---------------------------------|
| Revenue – continuing operations | 13,404 | | | | | | | | 13,404 |
| Direct costs | (3,597) | | | 13 | | | | | (3,584) |
| Net Rental Income | 9,807 | 0 | 0 | 13 | 0 | 0 | 0 | 0 | 9,820 |
| Administrative expenses | (1,932) | | | | | | | (26) | (1,958) |
| Gain from change in fair value of investment property | 0 | 14,057 | | | 124 | | | | 14,181 |
| Surplus on disposal of investment properties | 23 | | | | | | | | 23 |
| Operating profit | 7,898 | 14,057 | 0 | 13 | 124 | 0 | 0 | (26) | 22,066 |
| Interest receivable and payable and similar charges | (4,389) | | | (13) | (124) | 10 | 10 | | (4,506) |
| Change in fair value of derivative financial instruments | | | | | | | 1,036 | | 1,036 |
| Profit before tax | 3,509 | 14,057 | 0 | 0 | 0 | 10 | 1,046 | (26) | 18,596 |
| Taxation | (1,078) | 15 | (4,217) | | | (30) | (314) | | (5,624) |
| Profit for the period | 2,431 | 14,072 | (4,217) | 0 | 0 | (20) | 732 | (26) | 12,972 |

Notes to the Quarterly Results

continued

24. Explanation and reconciliation of IFRS adjustments continued

| | Previous GAAP £000s | IAS 40 Investment Property £000s | IAS 12 Contingent tax £000s | IAS 17 Property head leases £000s | IAS 10 Dividends £000s | IAS 16 Owner occupied property £000s | IAS 38 Computer software intangible £000s | IAS 32/39 Convertible loan stock £000s | IAS 39 Fair value of derivatives £000s | IAS 7 Cash and cash equivalents £000s | IFRS 2 Share based payments £000s | Restated under IFRS £000s |
|--|---------------------------|---|--------------------------------------|--|------------------------------|--|---|---|---|--|--|---------------------------------|
| Non current assets | | | | | | | | | | | | |
| Investment properties | 621,613 | 14,057 | | 756 | | | | | | | | 636,426 |
| Intangible assets | 0 | | | | | (511) | 185 | | | | | 185 |
| Property, plant and equipment – other | 3,639 | | | | | 500 | (185) | | | | | 2,943 |
| Property, plant and equipment – land | 0 | | | | | | | | | | | 500 |
| Total non current assets | 625,252 | 14,057 | 0 | 756 | 0 | (11) | 0 | 0 | 0 | 0 | 0 | 640,054 |
| Current assets | | | | | | | | | | | | |
| Trade and other receivables | 14,019 | | | | | | | (196) | | | 26 | 13,849 |
| Financial assets – derivative financial instruments | 0 | | | | | | | 710 | | (2,113) | | 710 |
| Tenant deposits/other investments | 3,259 | | | | | | | | | | | 1,146 |
| Cash and cash equivalents | 122 | | | | | | | | | 2,113 | | 2,235 |
| Total current assets | 17,400 | 0 | 0 | 0 | 0 | 0 | 0 | 514 | 0 | 0 | 26 | 17,940 |
| Current Liabilities | | | | | | | | | | | | |
| Financial liabilities – borrowings | (17) | | | (5) | | | | | | | (22) | (22) |
| Trade and other payables | (32,339) | | | | 3,321 | | | | | | (221) | (29,239) |
| Current tax liabilities | (4,351) | | | | | | | (3) | | | | (4,354) |
| Total current liabilities | (36,707) | 0 | 0 | (5) | 3,321 | 0 | 0 | (3) | 0 | 0 | (221) | (33,615) |
| Net current (liabilities)/assets | (19,307) | 0 | 0 | (5) | 3,321 | 0 | 0 | 511 | 0 | 0 | (195) | (15,675) |
| Non Current Liabilities | | | | | | | | | | | | |
| Financial liabilities – borrowings | (303,943) | | | (751) | | | | | | | | (304,601) |
| Financial liabilities – derivative financial instruments | | | | | | | | (2,313) | | | | (2,313) |
| Deferred tax liabilities | (5,714) | 2,497 | (67,513) | | | | | 481 | | | 62 | (70,215) |
| Total non current liabilities | (309,657) | 2,497 | (67,513) | (751) | 0 | 0 | 0 | (1,832) | 0 | 0 | 62 | (377,129) |
| Net Assets | 296,288 | 16,554 | (67,513) | 0 | 3,321 | (11) | 0 | (1,321) | 0 | 0 | (133) | 247,250 |
| Equity | | | | | | | | | | | | |
| Ordinary Shares | 1,686 | | | | | | | | | | | 1,686 |
| Investment in own shares | (6,096) | | | | | | | | | | | (6,096) |
| Share premium | 43,469 | | | | | | | | | | | 43,469 |
| Other reserves | 0 | | | | | | 151 | | | | 117 | 268 |
| Revaluation reserve | 201,241 | (201,241) | | | | | | | | | | 0 |
| Retained earnings | 55,988 | 217,795 | (67,513) | 0 | 3,321 | (11) | (86) | (1,321) | | | (250) | 207,923 |
| Total equity | 296,288 | 16,554 | (67,513) | 0 | 3,321 | (11) | 65 | (1,321) | 0 | 0 | (133) | 247,250 |

Reconciliation of equity

at 30 June 2004

Notes to the Quarterly Results

continued

25. Quarterly Statement

Copies of this statement will be dispatched to shareholders on 5 September 2005 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 small and medium sized enterprises in London and the South East. |
| Directors | Antony J Hales BSc , (Chairman)* Harry Platt MA MRTPI , (Chief Executive) John Bywater FRICS* Madeleine Carragher FRICS , (Operations Director) Bernard Cragg BSc ACA* J Patrick Marples MRICS , (Property Director) Christopher J Pieroni BA MSc PhD* R Mark Taylor BSc FCA , (Finance Director) *Non-executive director |
| Secretary | R Mark Taylor BSc FCA |
| Registered Office and Headquarters | Magenta House 85 Whitechapel Road London E1 1DU Tel: 020 7247 7614 Fax: 020 7247 0157 |
| Registered Number | 2041612 |
| Auditors | PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH |
| Solicitors | Norton Rose Kempson House Camomile Street London EC3A 7AN |
| Bankers | The Royal Bank of Scotland Corporate Banking London 280 Bishopsgate London EC2M 4RB |
| Financial Advisers and Joint Stockbrokers | Panmure Gordon 50 Stratton Street London W1J 8LL |
| Joint Stockbrokers | Investec 2 Gresham Street London EC2V 7QP |
| Financial Advisers | N M Rothschild New Court St Swithin's Lane London EC4P 4DU |
| Registrars | Computershare Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH |

